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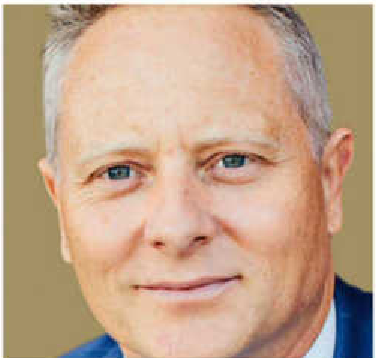

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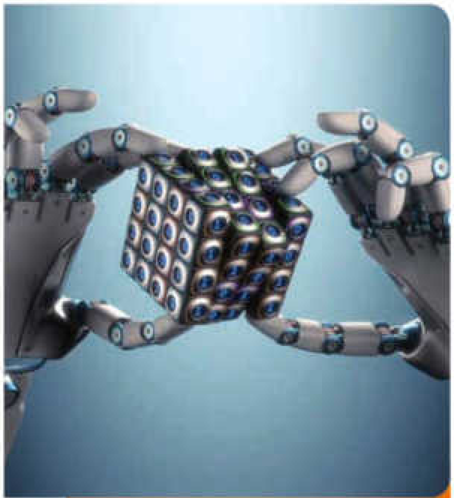

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Make the most of the volatility

Where would you invest $10,000? It's a question that's been answered by some of Australia's top money experts. Paul Clitheroe tips BHP Billiton, Peter Switzer says an exchange traded fund such as the SPDR S&P/ASX 200 while Ross Greenwood has his eye on Ramsay Health Care among others. Volatility breeds opportunities and as we were going to the printers there was plenty of that. The S&P/ASX 200 continued its upward momentum on the back of international gains. Hard to believe that only a couple of weeks earlier (September 29) the market was down to 4918.40.

SQM Research predicts that house prices are set to ease to their slowest pace since 2012, with Sydney cooling quickly. First-home buyers may finally have time on their side. Even if the Reserve Bank does decrease the cash rate in light of Westpac's rate hike it's not clear if the other banks will follow. Either way investors and home owners should be questioning whether now is the time to fix. I've never been a big advocate of fixed rates but I did lock in my investment loan before fixed rates started to rise. Our cover story also tackles some of the most popular questions our readers keep asking.

feedback

LETTER OF THE MONTH

Travellers can save even more

I am writing to point out savings realised from using specialist price comparison websites. Also by doing a little bit of due diligence readers will be able to reap more savings on their travels.

Our family likes to stay in nice accommodation without paying high rates. Years ago this required doing a lot of research but now specialist price comparison websites have been really helpful in saving both time and money. With increased competition in booking online travel, however, we have recently found that by doing an extra simple step we can save even further. This extra step takes into consideration the "best price guarantee" offered by a hotel before making a booking.

After recently using cheapstay.me to compare prices, we found the Accor-branded hotel that we wanted to stay at. A simple check of the hotel website confirmed that the lowest price found by the comparison website was cheaper than the rate available on the Accor website. While many companies simply promise to match prices through their price guarantee, Accor promises to match the lower rate plus drop another 10% off. So by booking direct with the hotel and raising the price difference with them, we saved 14% off the already low rate.

While our example involved Accor, we have found other leading companies, including Hilton and Rydges, also offer additional discounts after matching the lower rate. When using this tip, care needs to be taken as each "best price guarantee" has different conditions attached to it. But through a little extra effort and due diligence, readers will hopefully be able to make the most of this opportunity just as we have been able to.

Luke, email

Advice proves valuable

I have been a *Money* subscriber/reader for well over a decade now and I have always looked forward to the next issue.

We have followed the advice of Paul Clitheroe and other experts over the years, and now find ourselves in a comfortable financial position.

My husband and I are in our mid-40s now (salaried employees), we have paid off our mortgage, have set up a self-managed super fund holding a rental property and shares, and own three other rental properties in our names with 50% loan-to-value ratio. We've been on numerous overseas holidays with our three kids and are considering upgrading our family home.

I thank you for your valuable advice and guidance through the good times and the uncertainties over the past few years. My question to the panel now is: a lot of the material is directed towards new investors, can you please include some articles for seasoned investors who have a little bit of equity to invest?

Jenny, email

Ways to save energy

Steph Nash made some great points about energy saving ("Cool customers", October). I would also like to point out that a house generally feels more comfortable if you apply some basic energy-saving measures, as well as helping your hip pocket and the planet.

I encourage everyone to go to their local council to ask if they have energy audit kits. Our council lends kits for free with all sorts of gizmos, such as infrared guns to find draughts and energy counters that can tell you how much electricity an appliance is using. There's even a good old-fashioned mercury thermometer.

I used one of these kits last year and found draughts in the front and back door and in two windows, and my fridge/freezer was a degree too low. I even worked out it took 68 watts to heat one cup of water and 135 watts to heat eight! So I now have a thermos next to the kettle to keep the excess. I put a reflective white-backed curtain on a north-facing window and a couple of metres of draught-stop tape on the windows and door. Our bills so far are down $200 from last year – and that is after we had a baby! Speaking of which, a ceiling fan makes a great circuit breaker if your baby is crying and nothing else works.

David, email

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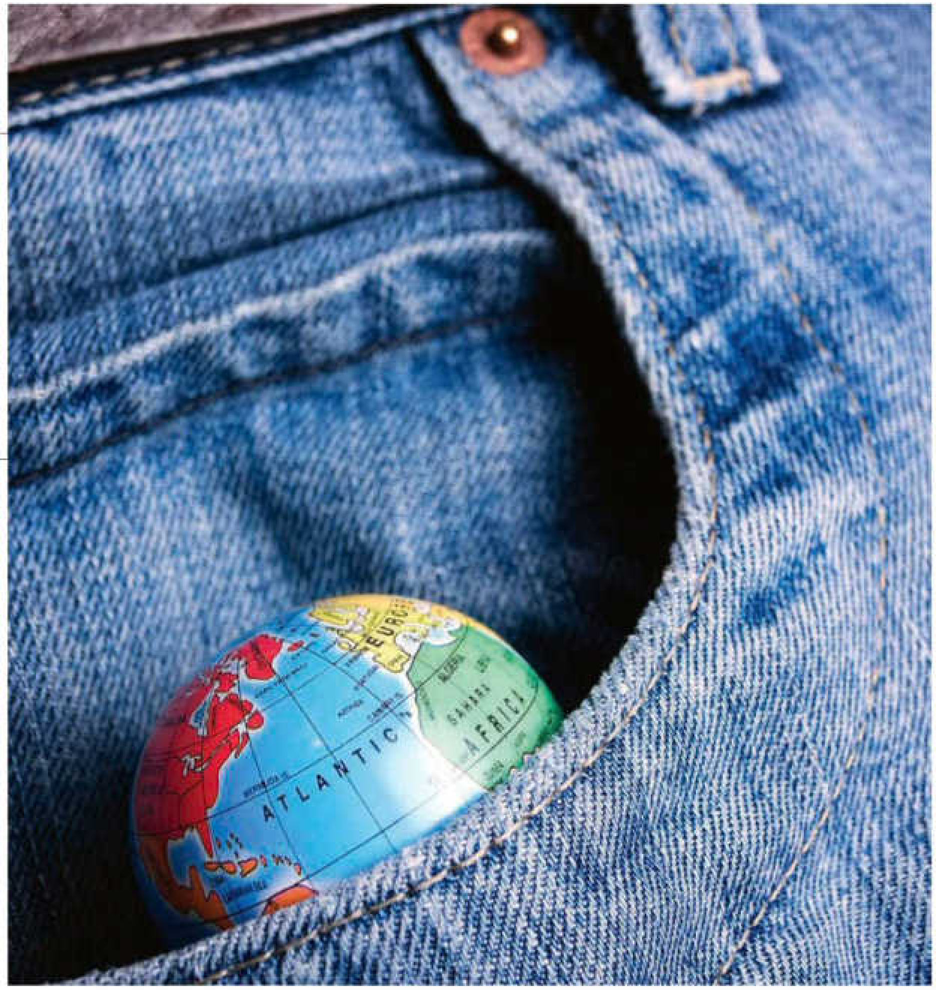
Paul Clitheroe finds 1 billion reasons to be sensibly optimistic about the state of the world



GETTY IMAGES

REGULAR READERS of this column will know that I am an optimist. Frankly, I find it hard not to be. Now this is not the place for too much chat about sperm production in males and other distinctly non-money subjects, but medical scientists tell me that the chances of any of us being here are about zip. I appreciate that zip is not a very technical term but the sort of chance we have of the right sperm meeting the right egg seems to be along the lines of one in 18, followed by a little more than 400,000 zeros, close enough to zip for me.

Yes, very horrible things happen to people due to plague, pestilence, illness, wars and general human nastiness. But the fact of the matter is that life is getting better for most. Followers of any form of the media would be quite right to tell me to pull off the rose-coloured glasses and get real. But despite the media being full of disasters of various kinds, from the awful situation in Syria, the plight of refugees and even VW seemingly scamming us over engine emissions, the facts are on my side.

Despite all the handwringing in Australia about falling resource prices, an attack on double time on Sundays, possible taxation of super for the really rich, the possibility of a recession and so on, we are all quite aware that it really is very good here, if far from perfect.

For example, we would all like the millions of people who go to emergency in our hospitals each year to receive perfect treatment. This of course is just silly. Humans, even the best trained and skilled ones, will make errors. But where else in the world would you like to go to a hospital after an accident or other emergency?

Better lives for the poor are better for everyone

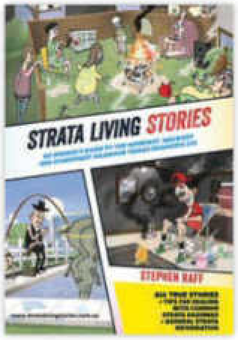
So it was with interest that I read recently that some 95% of people feel that, along with all the other bad stuff, global poverty is getting worse. Global poverty is a really important issue – it shows us the number of our fellow human beings who, to put it in our language, are doing it really tough. I doubt you'll find anyone in Australia living on less than $US1.90 ($2.65) a day but that is the current measure used by the World Bank. It was $US1.25 a day in 1990 and has been adjusted in line with third-world living costs

In 1990 we had some 2 billion people living below this poverty line, or 38% of people. As you can imagine, the incomes of the poorest members of the globe's population are complex to calculate, so the latest figures released are from 2011. But it is just stunning to see that, despite significant population growth, in the past two decades the number of people in extreme poverty has dropped by around 50% to 1 billion. The truth, of course, is that this still means around 14% of the globe's population are in dire straits – but halving the number is quite extraordinary.

So what has this got to do with money? Well, basic humanity comes first but, to be pragmatic, better lives for the poor are better for everyone. A move above the poverty line means consumption above basic needs; this drives demand for goods and services. Humans benefit but so do companies that service this demand. And as companies grow, they employ people. This is all about breaking cycles of poverty.

We should certainly take notice of all the challenges for our planet and the pessimists have a long list to point to. But the overall evidence supports a sensibly optimistic view.

BOOK OF THE MONTH



STRATA LIVING STORIES

Stephen Raff

ACE BODY CORPORATE RRP $29.95

Strange thinks can happen in strata-titled apartment blocks. Now there is a whole book on the highs and lows of strata living – "an insider's guide to the weirdest, wackiest and downright hilarious things residents do".

Stephen Raff is the CEO of Ace Body Corporate Management, which looks after more than 60,000 units in Australia. His book is based on real cases that have been sent it by people in the strata sector, accompanied by amusing illustrations.

There's the resident who hosed down a couple who were making too much noise being intimate; complaints about a woman who like to garden naked; and someone caught using common power to keep the dead body of a relative refrigerated.

Jokes aside, the book also contains tips for dealing with common strata issues, such as pets, parking, noise and acceptable behaviour. It includes a handy contact list and a glossary of terms. EMI BERRY

Ten readers can win a copy

In 25 words or less, tell us the strangest strata story you're heard. Send entries to Book of the Month, Money, GPO Box 4088, Sydney, NSW 2001 or email money@bauer-media.com.au. Don't forget to include your name and postal address. Entries close December 2, 2015.

THE BUZZ

Super's feast of fees

Banks get a big slice of the $30 billion pie

Businesses that service Australia's superannuation industry were paid a staggering $30 billion in fees in 2014-15. Who gets this money is revealed in a report by independent research firm Rainmaker Information for Industry Super Australia.

The biggest chunk goes to trustee offices and administration, which received $10.2 billion (34%). The second-largest beneficiaries are investment managers, which reaped $7.7billion (26%). Group insurers that sell their life, total and permanent disability and income protection insurance to super funds got $7.1 billion (24%). Financial advisers walked away with $4.1 billion in fees (14%).

Asset consultants – the experts that tell super funds where to invest – received $500 million (2%). To safely keep securities, super funds use secure custodial services, which also received $500 million.

What is revealing about the study is that Australia's four big banks collect about a third of all fees paid to super funds.

Overall, some 91% of the $30 billion goes to commercial wealth management businesses. David Whiteley, chief executive of Industry Super Australia, the umbrella organisation for the industry, claims that because many of the services are carried out within bank-owned businesses (such as platforms, funds management, financial advice, group insurance and asset consultancy groups), there is a little transparency. He believes that this should be cause for concern for super fund members and is an area ripe for disclosure reforms by lawmakers and regulatory authorities.

One heartening fact is that the average workplace super fund's total expense ratio (TER) has fallen by 20% since the introduction of MySuper in July 2013. The average TER for workplace super is 1.22%, personal 1.75%, retirement (pensions) 1.63% and self-managed super 0.8%.

The report found the not-for-profit sector, which accounts for 41% of funds under management and has an estimated 45% of members, paid 37% of the $30 billion while the retail sector, with 30% of funds and 45% of members, paid 52%. SMSFs, with 29% of funds and 9% of members, accounted for 11% of the fees. SUSAN HELY

THE BURNING QUESTION

Does our gender influence investment decision making?

Nathan Bonarius, senior consultant, Rice Warner

It is a question that has intrigued social researchers and behavioural finance thinkers for decades: does gender really influence the way people invest? From Rice Warner's analysis of some 10 million-plus superannuation member accounts in Australia, it appears that men are significantly more likely to invest in a choice option than women. Some 26% of males invest in a choice option, compared with 21% of females.

What is driving commonality across the sexes when we might assume some wider variance in expected investment behaviour? One explanation is that couples co-ordinate investment decisions across both super accounts. This only requires one member to be engaged in their super and investing in similar options across both accounts.

Plausible enough. However, it is impossible to test the hypothesis because funds do not know enough about their members, especially marital or partnership status.

However, the picture sharpens – perhaps counterintuitively – when it comes to allocation to growth assets. Across the same sample of members, of all people who selected a choice option the allocation to growth assets differed by only 3% between the sexes, with some 73% versus 70%.

JIM TSINGANOS

FREE MONEY

Help for dealing with bereavement

It is never easy to lose a loved one. Bereavement is an extremely difficult time, and it can also trigger substantial changes in the way you manage your finances. As with all major life changes, it is important to notify the Department of Human Services quickly so that we can determine the payments and services that best suit you.

If you are currently receiving a Centrelink payment you may be eligible for bereavement payment if your partner, child or person you were caring for dies. If your partner has recently died, you may be eligible for a bereavement allowance, which is a short-term payment that provides financial support while you adjust to your changed circumstances.

Our financial information service is a useful resource to discuss options and provide information you need to make informed decisions about your finances. In the weeks following a loss, you will also need to notify other organisations and government agencies about the situation. The department has a useful checklist available online. The best starting point is humanservices.gov.au/bereavement.

HANK JONGEN, DEPARTMENT OF HUMAN SERVICES

BOTTOM LINE

Pension has a 'bucket' for boost income

The trouble with some income pensions, known as account-based pensions, is that they are invested so conservatively that retirees receive an extremely low income.

RetireSmart, a new product from Australian Catholic Superannuation, tackles this by providing two investment "buckets": one for cash and the other for growth assets. The shares and property in the growth bucket produce dividends, interest and capital gains and generate a consistent income stream.

RetireSmart is designed to help address the risk of outliving your money. It invests the member's account balance into two years of cash for secure short-term income. The income from the growth investments is put back into the cash bucket to fund regular pension payments. If the balance in the cash bucket rises above three years' worth of pension payments, the excess will be shifted to the growth bucket. This redistribution happens automatically and members do not need to actively manage the allocation of their assets. RetireSmart can also be used for transition-to-retirement (TTR) pensions.

Members have flexibility in selecting their annual income, subject to an age-based minimum. The maximum is 20% of the account balance (10% for TTRs). Members can also choose payment frequency: weekly, fortnightly, monthly, quarterly, half-yearly or yearly. They can make lump sum withdrawals on top of the regular payments. The minimum initial investment is $100,000. SUSAN HELY

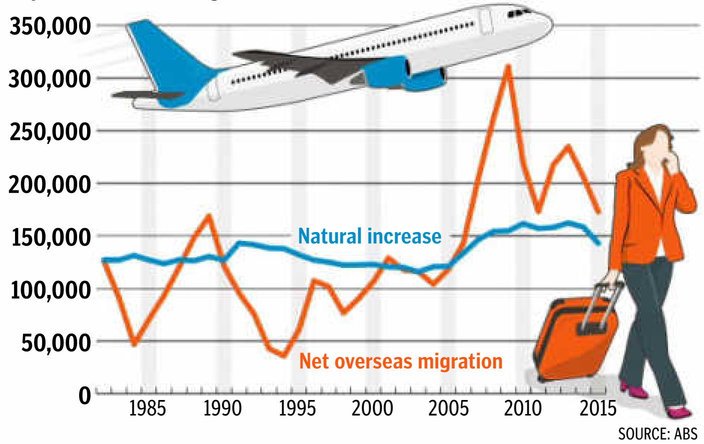
MONEY VERDICT

This is a straightforward product that has taken a smart approach to prolonging capital because outliving their savings is a big risk for many retirees. What is missing is a growth option focused specifically on high-income investments. There is no upfront cost and the investment fee for growth is 0.63% and for cash 0.09%. The admin fee is $1.50 a week plus 0.25% of the account balance. The fund takes care of payments and investments but offers flexibility so you can enjoy your retirement.

POPULATE OR PERISH

How often have you read in Paul Clitheroe's *Money* columns that a growing population underpins our economic growth? Well, the chart drawn from a comparison of the Australian Bureau of Statistics numbers for natural increase and net overseas migration shows just how important immigration has been to the nation and how linked it is to our economic cycles. Australia's long-term average population growth is about 1.4%. If we relied just on natural increase it would be half that rate.
LINDSEY LEATHART

Population and immigration Annual, to March, 1982-2015 estimates



APP OF THE MONTH

AmpMe
Cost: Free
OS: iOS, Android

The future is all about minimalism, right? One device can and should be able to do it all. Well, thanks to the new AmpMe app, your smartphone will have one more function – a speaker system. The app connects to your sound cloud and creates a unique party playlist that can be shared with anyone in the room. Other users can connect to your playlist, and sync up automatically to whatever is playing.

A single synced-up phone may sound a little weedy but when a group of phones start playing in unison, the effect is like a sound system. If you're heading to the beach with a big group, ditch the bulky portable speakers.

With AmpMe, you can consolidate your listening experience using every smartphone in the party. And if a few people have their own playlists, you have an increased variety of tunes to choose from. It's like a walking, talking music library – it will be a hit at your next party. STEPH NASH

WHAT'S NEW

Bright spot for troubled VW

Sales of secondhand vehicles hold up in US

Despite the dirty diesel scandal, demand for Volkswagen diesel models in the US has remained surprisingly steady. In early October VW suspended sales of its 2015 diesels but there were still about 500,000 cars on the second-hand marklet. Bloomberg reports that while sales at VW dealerships have fallen by between 8% and 14.5%, the popular private car sales site CarGurus.com reported a 0.6% price drop in VW diesels while Carlyspo.com saw a 0.3% drop – a difference of only about $US30 ($40). Prices on TrueCar.com were even higher than they were before the scandal, with the site posting a 13% mark-up on 2015 models.

Property crowdfunding

A new managed investment scheme from DomaCom offers crowdfunding investors a slice of the property pie for an initial outlay of just $20,000. Each property available through the DomaCom fund is placed in a sub-fund, where investors can pitch in as little as $2000 towards its purchase. Investors share the cost of due diligence and management proportionate to their investment. They receive a share of the rent and future capital value for five years (or longer subject to a unitholder vote). If you need to pull out, you can sell your units to other investors. Fees are 0.88% of the amount invested in a sub-fund.

Pay rent via credit card

Easyshare.money is an online platform that aims to make it easier for tenants to pay their rent on time. It works like a transfer service – you direct your rent to it via credit card, and it forwards the amount to your landlord. For share houses, the platform allows you to consolidate all payments and manage the sharing of bills. Easyshare has teamed with a few internet and electricity providers to offer discounted rates, and the overall function of the site makes it much easier to organise the responsibilities of a share house. But all Visa and MasterCard payments incur a 1.5% surcharge. There's a three-month free trial but then a membership charge for share house accounts of $4.95 a month. STEPH NASH

TAX TIP

Amended return

Correct a mistake as soon as possible

There can be few feelings more dispiriting than the realisation that you've made a mistake on your tax return after you've lodged it. There are a number of common errors people make. Many forget to include income such as interest from a bank account or from a previous job; deductions such as motor vehicle or rental property expenses; income from sources such as trusts, investments and capital gains; and additional information relating to the Medicare levy or surcharge.

Whatever the reason, the last thing you want is to have the ATO getting in touch to audit you because it has spotted a discrepancy. Thankfully, it is possible – and increasingly easy – to make changes to your tax return after you've lodged it.

The ATO allows you to amend your tax return in most cases up to two years after you have received your notice of assessment in relation to the original return. You can either do this online through your myGov account or by post, or you can get your tax agent to do it.

When you lodge the amended return, it is essential you clearly explain why you made the mistake or the reason for the change. If the amendment results in you paying more tax, the amount of any penalty will, in most cases, be reduced (or remitted altogether) because you have voluntarily disclosed the error or omission.

The important thing is that as soon as you realise the information you have reported to the ATO is no longer accurate, you act to correct it.

MARK CHAPMAN, DIRECTOR OF TAX COMMUNICATIONS, H&R BLOCK

Youthful energy and ambition have turned a tech start-up into an international success story, writes Deborah Light

An early developer

AT AN AGE WHEN most are kickstarting their careers, Mark McDonald is at full throttle. The software development and consulting company he co-founded now employs 300 on three continents and is attracting revenues of $2 million a month after just four years. With Josiah Humphrey – who he met over the internet when they were young teens – McDonald launched Appster using a precocious strategy to make a mark. Paying $6000 a month, the pair took a year's lease in Melbourne's prestigious Rialto building, then home to revered tech industry giants such as Google and IBM.

In retrospect it was dumb. "If you've got a business making like $10,000 a month, you don't spend 60% of your cash flow on the office, right?" McDonald admits. "What was good was that we signed up when we didn't have a business, so it burnt the ships. At that point Josiah and I could have gone back to university or done something else but the fact we had that commitment meant there was no turning back; we wouldn't be where we're at without that."

There are assets and liabilities that come with youth when you're starting a business, he's found. "The advantage of being super-young is you have a huge amount of energy. Also failure isn't really that big a thing – because what do you have to lose? The way we thought about it was we had a three- to four-year run to go crazy and try as many things as possible. As long as we didn't take on debt and were responsible about the risks we took, there were no downsides." But there were.

"Certainly one of them is inexperience," McDonald reflects. "Learning how to manage people is really hard, say when you're 18 or 19 and one of your sales guys is going through a divorce, or their kids won't talk to them – these things have actually happened." That inexperience also made the pair targets for exploitation. "People assume they can try on things they would never try with a bigger company: recruiters who would add on fees or people who would promise the world but know, because the company was so small, we couldn't litigate or do anything if they didn't meet their contract. No one prepares you for what happens if a strategic partner says something to your face and does the exact opposite; no one prepares you on how to cope when you really need a staff member to get a sales target but their personal life is falling apart. Being younger means you have to be smarter and more aggressive to make sure you're overcoming those challenges."

Over time the pair also learnt from their own employees. "We made sure we brought in people that had strengths we didn't have. A lot of people ask, 'Am I too old to work at Appster?' I say you can be as young as 18 or in your 60s because we have a whole range."

They're also ferocious readers who, from about age 13 when they first started doing projects together, raided local libraries to devour every business book they could find, a reading habit that continues today. Incidentally, two McDonald recommends are *The Hard Thing About Hard Things* by Ben Horowitz ("it talks about what to do if, say, somebody steals your co-founder or embezzles money – stuff no one talks about"); and *Zero to One* by Peter Thiel ("about how to take something that doesn't exist and make it real – they're the hardest businesses to build but they're the most sustainable"). McDonald also immerses himself in biographies, particularly of leaders, and finds the common traits of focus, hard work and big decisions.

It might help explain how there seems wisdom beyond his years in some of McDonald's observations. Consider his ideas on debt. He despairs of start-ups on the make for easy money. "So many companies can be built on hustle, hard work, but

FACT FILE

Mark McDonald, 23, co-founder of software development company Appster. Lives in company apartments in Melbourne, San Francisco and Gurgaon, India.

Ernst & Young southern region Entrepreneur of the Year award in the technology category. First job paper round, aged 12. "I hated every minute of it."

EAMON GALLAGHER

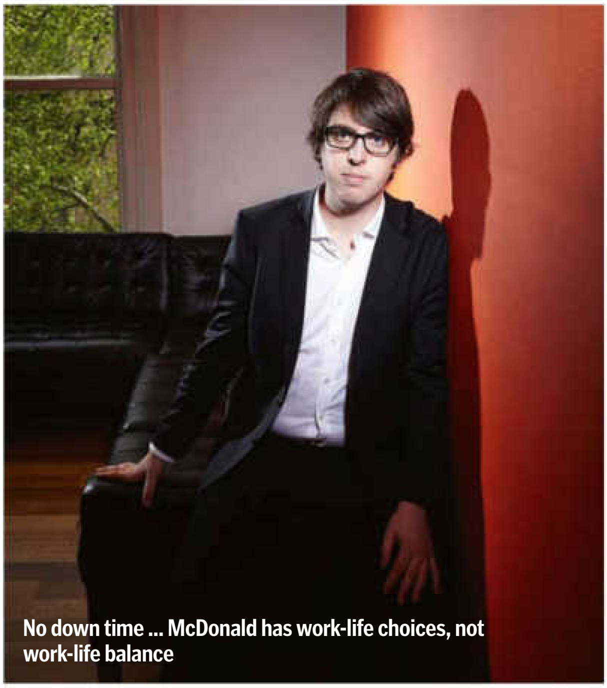
"Being younger means you have to be **smarter and more aggressive**"

a lot want the easy pill; they want someone to say, 'Here's a cheque for half a million dollars, go build your idea.' But the real validity in a business model is whether your customers will give you money." To date Appster has no outside funding partly because in the beginning there were no options. "First of all, no one in their right mind would have given us a loan; secondly there was no angel investment or venture capital money in Australia – so the only thing we knew to do was go and sell and build a customer-funded business. My advice to budding entrepreneurs is that the majority of businesses can be funded by customers if you're patient enough and work hard."

With well over a million apps on offer at any time, this market is teeming with choice so it's difficult to stand out and even harder to hang on, says McDonald, who believes the only way to endure and prosper is to build apps that become routine fast. "There's something like 20,000 apps made every day and, across the industry, 90% of them are deleted on the first day and 95% by the end of the month. So you lose a huge amount of usage very quickly – and that's because unless you build a habit into a product, you don't have a sustainable business model." Examples of these include Facebook, Twitter and some games, he believes, adding that investors prize mobile-first companies (companies that deliver their product chiefly via mobile phones) with apps that reflect lasting popularity. "It's about retention – how many come back every day. The higher the number of average daily users, the higher that company's stock price is."

Appster has worked with over 100 partners to date, mostly start-ups, although familiar names include Coca-Cola Amatil, the union body CFMEU, the Liberal Party and radio hosts Hamish and Andy. Among apps McDonald's proud of, there's Splashflood, a showcase for independent musicians, and Bluedot, a precision location aid.

McDonald's father was a welder but he'd rather have been a potter and McDonald remembers as a child rising early to accompany him to help sell his pots at Saturday markets. "I'd say, 'You can't commoditise your product; you can't have a hundred pots out there – only three or four and then charge hundreds for each.' His real passion was art but he didn't value his product enough." Never undersell yourself was the lesson he took away. From his mother, a nurse who became a single mother, he learned self-sacrifice – she'd found money for his braces because he was being bullied at school, for example – while from both he learnt to value hard work.



No down time ... McDonald has work-life choices, not work-life balance

"Josh and I were really committed to saying for the next 10 to 15 years **let's run as hard as we can**"

A rangy, assured and articulate millennial, McDonald dropped out of university, having studied science for six months, figuring that if things didn't work out he could always return, so he could concentrate on establishing Appster. In the early days he and Humphrey regularly slept under their desks, working almost around the clock, and until recently paid themselves just $350 a week. Heroic maybe but they reasoned it was the only way they could fund salaries of incoming staff who, in any case, often took pay cuts to join and may not have looked kindly on high spending by their superiors. McDonald adds: "To be honest, it takes a lot of empathy and self-confidence to be at the peak of your career and come and work for two people in their early 20s." Around 15%-20% of the company will be controlled by employees via options that are granted to staff considered to have "gone above and beyond ... someone we want to stay". When targets are met, employee teams get rewards, which have included overseas skiing trips and deep cave diving. Just now, for the two partners, participating in these is about as much leisure as they allow themselves.

There's no point in talking about downtime right now because the company has a way to go if it's to deliver on the stated ambition of $100 million in global revenue by 2018. "You don't have work-life balance, you have work-life choices," McDonald explains. "If I wanted to grow the company a lot slower and if we didn't do such ambitious things then, yeah, we could just chill out, buy a house and what-not but Josiah and I were really committed to saying for the next 10 or 15 years let's run as hard as we can and see what we can do."

McDonald has no home, in the traditional sense, in that he lives in company apartments in the three countries in which the Appster operates. His personal life seems non-traditional too. "My girlfriend has started calling herself a start-up girlfriend which apparently means someone who's not going to nag their partner to see them all the time, who doesn't have high expectations of the relationship now, but who knows that after a couple of years of hard work, it's going to be a lot easier later on because the start-up phase is be over. She's ambitious herself and we're very clear in our relationship that careers come first. You've got to have similar values." He laughs when asked to consider anything longer term. "Firstly, I'm too young to have kids but secondly, and Josiah would agree, it feels like less a responsibility to feed the families of 300 staff every week than to have a house, a mortgage and kids. That feels like much more responsibility."

EAMON GALLAGHER

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CASE STUDY

An author plots his future

Buying an apartment and organising super are top priorities, writes Susan Hely

NAME: John Pickrell
STATUS: 37-year-old author of *Flying Dinosaurs: How Fearsome Reptiles Became Birds* who wants to organise his super and buy a home.
QUESTIONS: Should John buy the apartment he is renting in Sydney? Which super fund should he choose, between REST and Media Super? Which fund has the best income protection insurance? He is in the balanced investment option but should he choose a different one given his age?
SOLUTIONS: If you buy the apartment, hold it for the long term for capital growth. The fees of the two super funds are similar but REST has had a stronger investment performance. Also REST has good long-term income protection insurance up to age 67. You are on track for a comfortable retirement but consider increasing your salary sacrifice amounts as you pay down your mortgage. At your age, you can afford to invest in a more growth-orientated portfolio.

When John moved his UK retirement savings to Australia a few years ago, he found that his fund, Media Super, wasn't a qualifying recognised overseas pension scheme (QROPS) and couldn't accept it. So he opened an account with REST. Now he wants to amalgamate his super to pay one set of fees and insurance. "What is the difference in the fees of these two funds?" he asks.

He is keen to take out income protection insurance and wonders which fund offers the better deal. Does he need death and TPD (total and permanent disability) insurance? Does he have to leave his QROPS money with REST or can he move it now he has paid tax on it? At his stage of life, what investment option should he choose? He salary sacrifices $30 a fortnight into super. Is it enough for a comfortable retirement?

John is about to purchase the inner-city Waterloo apartment – in which he has been living for the past seven years – with his flatmate under a tenants-in-common agreement. The two-bedroom, two-bathroom apartment with parking is 10 years old and is much larger than others being built in the area. The complex has a gym and pool. The fittings are starting to need repairs and the building is gradually being refurbished. Given Sydney's property market is softening, is it a good time to buy? Would a newer apartment be better?

John also wants to know if he is eligible for the UK state pension, given he worked there for four years full time and some years part time. He has a UK national insurance number and he wonders if he can top it up?

The condition of the building and its common areas is important

KRISTINA SOLJO

Back-up plan is vital

EMMA VAN MILTENBURG
Emma van Miltenburg has 15 years' experience as a financial planner and is with Centric Wealth Advisers.
centricwealth.com.au

John certainly has the foundations for being able to retire in a comfortable position, with his two-pronged approach to building wealth inside and outside super.

The most glaring weakness in John's current strategy lies in his back-up plan. His current strategy revolves around his continued ability to generate an income; as such it is imperative that his first priority should be to protect this. He should consider the benefits of holding his income protection insurance outside super if his cash flow permits.

Broadly speaking, his financial plan should focus initially on the repayment of non-deductible debts – the loan on his principal residence, for example. If it is his intent to acquire a second property that will subsequently become his principal residence, his long-term mortgage strategy could be enhanced by not actually repaying the debt but rather by making use of a mortgage offset account.

Starting early with additional contributions to super will see John benefit from the compounding of returns over the long term. Starting small, given his age, is wise as there always remains uncertainty associated with changes to superannuation legislation. Currently his salary sacrifice contributions to super will be taxed at a lower rate than if it was received as salary, so there is an upside for John now. Over time, he should consider the benefits in increasing the contribution amount having regard to the legislation current at the time.

Given his time horizon to retirement, a review of both his asset allocation and the underlying assets of his super investments would be beneficial. With more than 25 years before John can access his super, taking a more growth-oriented approach now could enhance his long-term returns, as long as he can sustain bouts of volatility and not "panic sell". Importantly, he should ensure he is investing in a diversified portfolio of quality assets.

It is likely that John will be able to roll over his previously transferred UK pension money to another qualifying scheme. However, the rollover will be reported back to the UK if it is within 10 years of the original transfer. If the receiving fund is not a QROPS, it may give rise to a tax liability in the UK, so formal advice should be sought before any action is taken.

Under the current rules John probably does qualify for a small UK state pension from 2045. He has 30 years to make contributions to top it up. See gov.uk/state-pension.

Inner-city buy should do well

JOHN MCGRATH
John McGrath is the chief executive of McGrath Estate Agents.
mcgrath.com.au

The Sydney market appears to be at least 80% through its current growth cycle so I wouldn't buy today expecting massive short-term growth. However, I believe that Waterloo is a well-positioned growth market and apartments close to the CBD will become an increasingly in-demand asset, so there should be very good capital gain available to John over the life of his ownership.

The condition of the apartment is not as important a consideration as the condition of the building and its common areas. An apartment can be quickly and cost-effectively updated. However, it's a much harder job to have all owners aligned to maintaining common areas in the highest possible state. If the common areas are in good condition and presentation, I wouldn't worry too much that the apartment is a bit dated.

The key question, of course, is whether there is a better location to park your real estate dollars than inner Sydney. I suspect that inner Sydney, like its counterparts in New York, London and Hong Kong, will just keep getting hotter and hotter as the population keeps growing, so as an investment it's a strong direction.

If there was a desire to look further afield I would suggest south-east Queensland as the best destination for strong growth over the next few years, specifically the Gold Coast and Brisbane.

REST tops the returns

KIRBY RAPPELL
Kirby Rappell is research manager at SuperRatings, which researches 110 MySuper products, 334 choice products and 178 pension products. superratings.com.au

In terms of fees, both REST's and Media Super's fees for a $92,000 account balance are competitive and less than the industry average. To give an idea, the average fee across all products is 1.25% or $1145.

It should be noted that the returns, net of fees and taxes, are also important when reviewing your fund. This is something that REST has excelled at in recent years: its return of 7.5%pa over the past 10 years to August 31 is the highest of all the funds in SuperRatings' SR50 Balanced Index. It is well ahead of the median return for balanced options, which was 6.1%pa during the same period.

Insurance is one of the most challenging areas of super to understand and compare across funds. This is because super funds review their insurance policies at least every three years. For both funds, you can obtain income protection insurance for a two-year payment period and Media Super's would be a bit cheaper. However, you should also be aware that REST offers income protection insurance that pays a benefit to age 67. While this is more expensive than a two-year payment period, it would provide coverage for longer.

HOW THE FEES COMPARE

	MEDIA SUPER	REST
Option	Balanced	Core Strategy
Administration		
Fixed part (pa)	$65.00	$57.20
Plus	0.10%	0.10%
For $92,000	$157.00	$149.20
Investment management		
Proportion	0.63%	0.66%
For $92,000	$579.60	$607.20
TOTAL FEE (pa)	$736.60	$756.40

Source: SuperRatings, October 2015

Income for the long term

Q I am 58 and my wife is 56. We would like to retire in two years. At present we are with REST Core Strategy. We would like to transition to the pension phase with about $800,000 for myself and $230,000 for my wife. Do we stay with the default option or go with a more balanced option. We would be happy with an annual income of $50,000. Do you have any other suggestions? At present we are both working part time with a combined income of about $45,000.

A $1 million-plus in super is quite an achievement but you need to remember that there is a high probability of at least one of you (and hopefully both) living for more than 30 years after you retire. As such, although it makes some sense to gradually decrease the amount of risk in your portfolio as you head further into retirement, it's important to maintain some exposure to growth assets over the long term.

Based on your current level of assets and the coming decrease in the asset test threshold, it appears you would currently not qualify for the age pension once you reach retirement age. Although you may qualify for some income support in years to come, for the time being I'd work off the assumption that you will need to be self-funded in retirement.

There are various methods for creating a portfolio to generate your income in retirement. One popular model is putting your expected spending needs for the next two to three years in "cash"-based investments with low volatility. You would then invest your expected spending needs for the following three to five years in conservative-style investments and anything beyond that period in growth-style investments. Rebalance these investments every year or so, with the advantage being that you're more likely to be able to maintain growth exposure, which is important to help keep up with inflation.

Life is likely to be long, statistically, and you need growth exposure to help make your assets last over the long term. I like your target of $50,000 a year – that is 5% on your super. Around 3% to 5% a year is a realistic rate of return above inflation.

GETTY IMAGES

Lily will need a buffer ...

When things go wrong

Q I am 23 and earn $72,000 a year. My husband is 30 and earns $85,000 and receives about $10,000 a year in bonuses. He owns an investment property worth $500,000, owing $170,000. We recently built our first home, owing $680,000. We have $59,000 in an offset account and no other debt. We are also planning an overseas holiday which will cost $15,000. Should we continue to build our offset or pay more off the house? We eventually want to build a strong property portfolio.

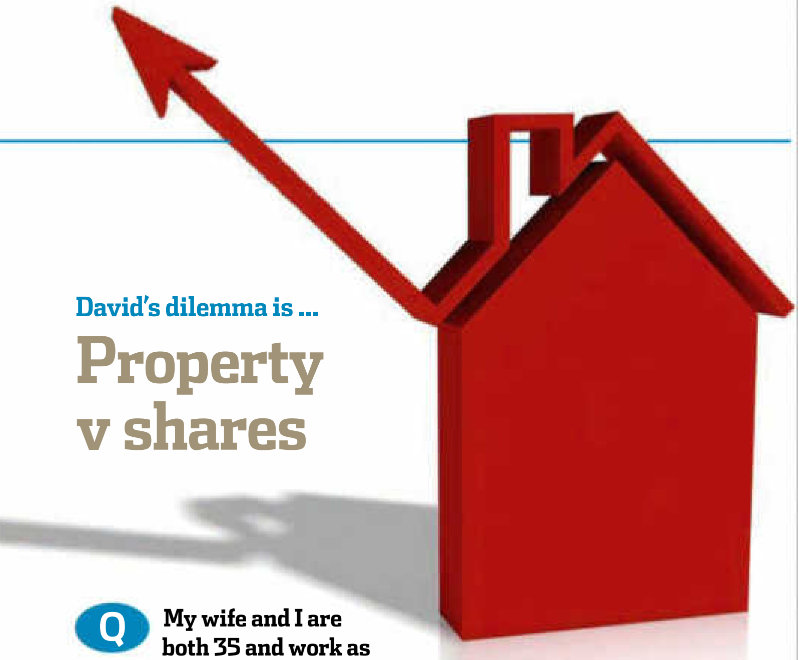
A Two properties, $59,000 in an offset account and around $170,000 in combined income, you're in a good financial position. Given you have around $850,000 in debt, I'd like you to think before taking on more: interest rates will rise.

As in my answer to Craig (at left), you two have a risk game to play. You could borrow, say, another $500,000 and buy more property. In the long run this should be fine, as long as a recession, a job redundancy or a rise in interest rates does not force you to sell. Risk is a two-way game. It multiplies profits in good times and losses in bad times.

So do your numbers carefully. What happens when, and I do mean when, something goes wrong. If you are not forced out of the market and you have a safety buffer, maybe another property is OK. If you are in doubt, there is a simple plan: just add to your offset account until you have a bigger safety buffer, then look at another property

Property has had a huge run in most capital cities. Our economy is slowing and, while I don't see a big downturn, it is reasonable to expect price growth to slow. I am not objecting to you owning more property but I'd hate you to go broke because of overgearing.

Give it some thought.



David's dilemma is ...

Property v shares

Q **My wife and I are both 35 and work as part-time teachers. I am on $45,000 and my wife is on $31,000. We have paid off our house, valued at $410,000, and have $185,000 in international shares. We have two small children, aged two and four, and have combined super of $140,000. We are having heated discussions about our next financial step. We live in country Victoria and my wife thinks we should buy a two-bedroom unit in Prahran or Hawthorn to hedge against rises in the city market. She feels that we might be priced out of the Melbourne market because regional property appreciates slower than city property. However, I would rather invest in more shares or a real estate trust to get exposure to commercial property. Can you please arbitrate for us?**

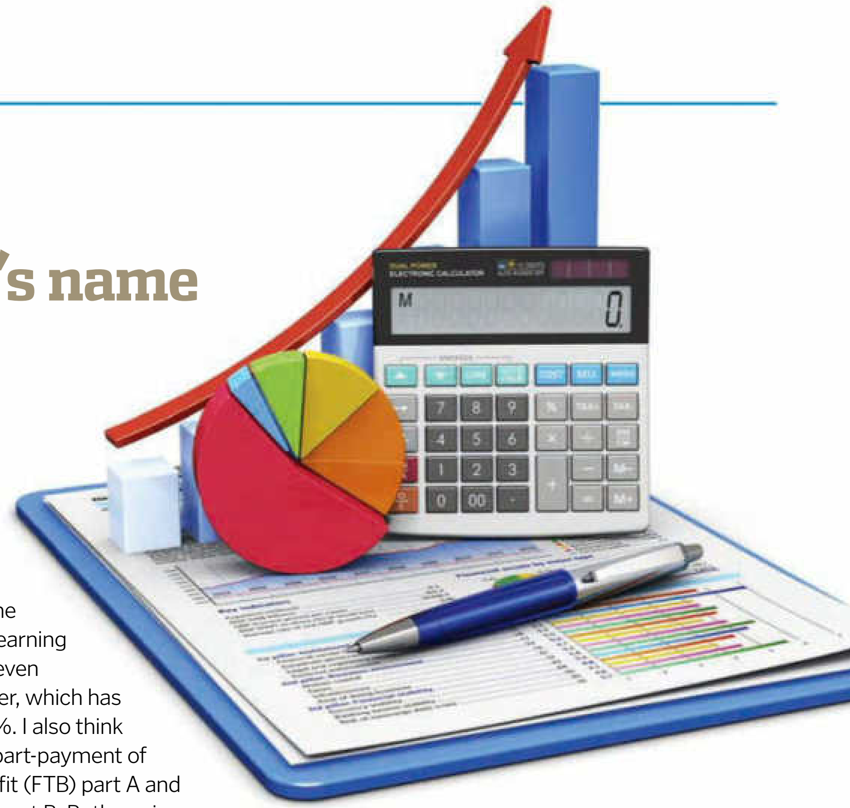
A It's really good to see that you've been able to pay off your home while having $185,000 in shares and $140,000 in super. It's a strong position for a couple in their mid-30s and creates a solid foundation on which to build wealth. I do note that you're both working part time at the moment. This may well be a lifestyle choice for you to spend more time with your young family but you should keep in mind that you're in your prime earning years and moving to full-time work would substantially boost your capacity to save as well as build your super when the time is right.

After 32 years in a happy marriage, I am going to stay well clear of arbitrating between your investment choices! But I am happy to look at the differences.

Yours is conservative as it involves no debt and sees you going with an ungeared and relatively liquid investment, perhaps shares, managed funds, real estate investment trusts, exchange traded funds or similar. This is a perfectly valid strategy. Your wife is equally correct. Prahran or Hawthorn will do just fine over the long term. But you need a deposit – I'd suggest more than 20% to avoid lenders mortgage insurance. I imagine you'd need to borrow $500,000 or so. Risks are a property downturn, inability to rent in a recession or interest rate rises. The gearing, however, should work for you in the longer term.

So what we have here is a risk-return moment. The geared property really should do better but you must plan for a few bumpy years at some stage. Property will not always go up and you do already own property. Move forwards 20 years and I have little doubt the geared property will do much better than ungeared investments.

So do your numbers and build in an economic drama, rising rates or a recession. If you can survive that, geared property should deliver return for your risk. If in doubt, why not go the "get rich slow" route, which is working so well for you now. Maybe a geared property is better as the kids grow – and you could both be on higher incomes. Over to you!



Chris should save ...

In low-earning partner's name

Q I am 38 and married with two young children (aged 3 and 1). I earn $96,000 and my wife is a stay-at-home mum and will remain so until the kids start school. Our home is valued at $950,000 (mortgage of $230,000) and we pay an additional $400 each fortnight. I have $165,000 in super and salary sacrifice $3000 a year; my wife has $40,000 in super. Are there any strategies I could consider to take advantage of a low-earning partner? I am also considering establishing a managed fund and making regular contributions or using the equity in the house to invest with a time period of 20 years. I would like to retire at 60.

A With little debt, more than $700,000 of equity in your home and around $200,000 in super, you're looking in great shape in your late 30s. In fact, you are doing really well!

Let's look at a tax strategy. All adults have a tax-free threshold of $18,200 and the low-income offset gives you an effective tax-free threshold of $20,542 in 2015-16. For you, saving in the name of a non-earning spouse can be even better than super, which has a tax rate of 15%. I also think you would get part-payment of family tax benefit (FTB) part A and maybe full FTB part B. Both are income tested. FTB A will cut out when family income exceeds about $109,000. FTB B will cut out if the main earner's income exceeds $100,000 and will otherwise decrease when the secondary earner earns more than about $5400. You should check with Centrelink.

So investing in your partner's name in a low-cost managed fund or exchange traded fund would work just fine over time. In your own name, super is a powerful option, in particular on the part of your salary above $80,000 where tax, with Medicare levy, jumps to around 40%. It is terrific you save $200 a week on top of salary sacrificing $3000 to super. I have little doubt you'll be able to retire at 60.

In fact, things are going so well, could I suggest a family holiday has been well earned?

Jessica recognises that ...

Education is the best investment

Q I'm 39 years old, a single mum to a three-year-old girl. I have a debt-free credit card, $3000 in savings, $50,000 in my super, with weekly contributions of $50, and $500 in shares.

My current income is around $30,000 and I have a HECS debt of $20,000. I'm studying part time and working for the next two years to reskill myself for when my daughter is at school.

I'm always looking to educate myself and learn as much as possible so I'm able to help my daughter have a good start. Although my savings are low, is it worth investing into a mutual fund, such as ethical investments for greater growth?

A Hi Jessica. Congratulations on having no credit card debt. As a single mum I reckon your expenses will be high and you are managing your money well. I imagine your job is part time.

Right now my advice would be to keep doing what you are doing and add to your savings in a high-interest online account. It is terrific you are already thinking about your daughter but I think that, when she starts school, you will be able to work longer hours and earn more. This would be the time to start another investment such as a managed fund.

You mention education and here we are in complete agreement. I would suggest you continue to focus on building your qualifications to allow you to maximise your future employment prospects and salary. On a relatively modest income you are doing really well. I have no doubt that with this attitude as time goes by you will be very successful with money, which will provide security for you and your daughter.

DO YOU NEED PAUL'S HELP?

Send your questions to:
Paul's Answers, *Money* magazine, GPO Box 4088, Sydney NSW 2001 or money@bauer-media.com.au.
Sorry, but Paul can't personally answer your questions other than in the Q&A column.

GETTY IMAGES

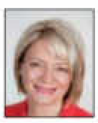
THE DILEMMA

Early retirees need to boost their income

Di and Al had decided to retire early. Di was 59 and Al 50. They stopped working and downsized their home. Their objective was to be able to go camping and fishing as they chose and spend more time with their families, in particular their grandchildren.

They had started without any forward planning or professional advice. While they felt they had enough capital to live on, they soon found that their cash flow, primarily from interest, was not enough to adequately sustain their preferred lifestyle and they had no access to Centrelink benefits. In addition, their income of $2375 a month was incurring some tax.

With cash in the bank, a small investment portfolio and relatively low super balances, Di and Al were concerned about falling interest rates and sought advice to help them not only continue to support their lifestyle but also find a solution that was mainly "hands-off" for them.



Petra Churcher, AFP, is general manager at ipac South Australia and has been a member of the financial services profession since 1991. She is also chairperson of the SA chapter of the Financial Planning Association. Visit ipac.com.au for details.

Name: Di and Al, aged 59 and 50

Income: $2375 a month, mainly in interest and therefore incurring tax.

Their situation: Retired early and downsized to help fund this.

What's the problem? They do not have enough to adequately sustain their preferred lifestyle and they have no access to Centrelink benefits. They are worried about falling interest rates and want a solution that will help them but won't require too much work.

What they need to do to support their lifestyle

1 DRAW UP WILLS AND ORGANISE ESTATE PLANNING

After discussion on what they really wanted to achieve, we also found that Di and Al did not have any wills or estate planning in place. As both have adult children from previous relationships, this was particularly important.

Di's previous husband had passed away without a proper estate plan and this had caused a great deal of family angst. Neither Di nor Al wished to have their children go through this. The will needed to be worded to take into account both sets of children. Enduring powers of attorney and powers of guardianship also needed to be considered.

This took on greater importance as they were about to embark on their first major camping trip around Australia and they needed to get appropriate advice and documentation.

2 MAXIMISE THE CONTRIBUTIONS TO SUPER

As both Di and Al were younger than 65 they could make up to the maximum super contributions. Ideally, to make the most of future Centrelink options the bulk of such contributions should have gone to younger Al. But to meet their lifestyle and estate planning needs, in fact Di received most of the repositioned assets into super. This enabled Di to commence a tax-free allocated pension that would also provide a predominantly tax-free status for these funds when they were passed to the next generation(s).

Other funds were retained outside super to provide tax-free income and take advantage of franking credits. The outcome of this is an income level aligned to their cash flow needs of $5000 a month and the availability of a healthcare card via Centrelink.

3 INVEST IN A WAY THAT PROVIDES SECURE INCOME

Di and Al were holding mainly cash assets. They wanted to have access to capital for some home renovations and travel. By adopting a lifestyle-needs-based approach to investing, which is different from the standard strategic asset allocation, we were able to structure portfolios that support both their income and capital needs through the ups and downs of market cycles.

Their portfolio (super and non-super) is allocated for their lifestyle needs. Immediate and short-term capital and income needs are held with little or no market risk. This provides peace of mind that their cash flow is secure. The portfolio balance is invested for medium and long-term requirements with some assets generating predominantly income together with growth assets.

TRAVEL

FACT FILE
A sightseeing bus leaving from Placa de Catalunya, a three-minute walk from Casa Camper, will take you around the city with easy drop-off points for most of the major attractions.

Destination Barcelona

Five things to do

1. Stay at the Casa Camper: Fabulous hotel in an excellent location, just off La Rambla. The bilingual staff will assist with day trips and dining. Rooms overlook a wall of giant potted aspridistra. Free breakfast and lunch snacks. Separate terrace bar with city views. Close to the tourist bus, or bicycles are available.

2. Basilica de la Sagrada Familia: One of the world's most stunning churches. The interior structure of the Antoni Gaudi masterpiece is abstracted from nature and resembles a forest of trees with sunlight poking through. It belongs on your bucket list. Gaudi's Park Guell on Carmel Hill is also a must-see. At the entrance sits a giant mosaic salamander leading up to an enormous patterned terrace with panoramic views over the city. Gaudi's personal residence, Casa Museu Gaudi, is also located here and showcases his private rooms, furniture and design.

3. Girona: Explore the medieval town on a day bus trip and go on to the Salvador Dali Museum at Figueres, home to the master's surreal paintings, sculpture and jewellery. An unforgettable experience.

4. Picasso Museum: Located in the El Raval district, it occupies a medieval mansion and houses over 3000 works from all periods of Picasso's career. Then catch the tourist bus to the Joan Miro museum on the mountain Montjuic.

Glorious Gaudi ... top, the main view from Park Guell; inside the Sagrada Familia.

5. Eating out: Pop into Bar Centric and mingle with the locals. It's a small venue with great wine, tapas and music. In the evening dine at Dos Palillos, a couple of doors up from Casa Camper, for delicious Asian fusion degustation. Bookings essential.

ANN LOVEDAY

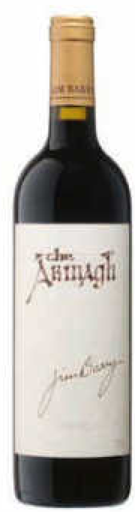
WINE SPOTLIGHT

2013 Flametree 'Embers' Cabernet Sauvignon $20

This regional Margaret River red under the second label of Yallingup producer Flametree represents good value for money. The outstanding 2013 vintage in the region contributes to its quality. It is designed for early drinking by winemaking supremo Cliff Royle, and so made to emphasise its suppleness – it is aged for 12 months in older French oak. It has lifted redcurrant and raspberry fragrances and pleasing blackcurrant and mulberry flavours. It is succulent and fleshy, medium-bodied, with firmish yet gentle tannins to finish. Consumed alongside dishes such as spring lamb chops or veal cutlets with sumptuous vegetables.

SPLURGE

2010 Jim Barry 'The Armagh' Shiraz $270



The celebrations that accompanied 30 vintages of this iconic red from the Clare Valley included a vertical tasting that illustrated the uniqueness, quality and longevity of one of Australia's most collectable wines. The 2010 'Armagh' is indeed a splurge wine, which would be ideal for celebrating a major birthday in 2020 or even 2030. It is a complex shiraz – quite closed now yet hinting at briar, vanilla and dark berry flavours, showing a lively, velvety palate before silky fine-grain tannins. The hallmark of the wine is its amazing intensity, monumental power and depth of concentration, which remain as it ages.

PETER FORRESTAL, TWITTER.COM/QUAFFONLINE

GETTY IMAGES

DRIVING PASSION

In the space race

Light brigade can do the heavy lifting

Every new car is bigger than the one it replaces, and while the proportions of "light" cars (the size below the "small" class) are still in the second-car realm, some of the broader-bodied and better-packaged offerings could almost do duty as a family hauler or handy run-around for anyone who needs to take a lot of stuff with them.

Skoda's third-gen Fabia is an appealing little car, especially in wagon form. It's well priced and refined to drive and has a huge 505-litre cargo bay. The Honda Jazz remains one of the best of the breed in terms of carrying stuff – thank the tall body and flip/folding "Magic" folding rear seat – and its sedan sibling, the Honda City, has a giant 529L boot. The newly released sedan version of Mazda's 2 hauls 440L of luggage in its boot – that's 190L more than the hatch, which is the same price – and is better looking (and better value) than the previous-generation version.

These sub-$20,000 compacts offer space and grace, efficiency and affordability, and will fit into almost any parking space.

JAMES WHITBOURN

$15,990-$21,440

Skoda Fabia

This fabulous light car (pictured) has a spacious interior that makes it feel almost a class bigger. The entry-level 1.2-litre turbo four-cylinder will suit most needs; the base 66TSI is a polished package and is our pick.
Pros: Great safety kit with six airbags; quiet and refined inside; high-quality interior; value; rear legroom.
Cons: Cruise control not fitted as standard; bumpier ride on versions with sports suspension.
skoda.com.au

$15,990-$21,390

Honda City

Honda's baby sedan costs just $1000 more than the Jazz hatch with which it shares its basic design, 1.5-litre four-cylinder engine and manual and CVT gearboxes. We like them both for their interior quality, flexibility, and the ease of city driving.
Pros: A more satisfying drive than the previous-generation version; appealing infotainment system.
Cons: Bigger wheels reduce ride comfort slightly in the VTi-L.
honda.com.au

$14,990-$19,690

Mazda 2 sedan

The arrival of the 2 sedan brings modest price rises and upgrades for the whole line-up – they all get cruise control and rear parking sensors, every version above the Neo gets a reversing camera, and top versions get some extra niceties.
Pros: Better looking than previous 2 sedan; same price as the hatch; eager, efficient engine
Cons: Ride not as supple as base-model Fabia's; tyre noise on coarse roads.
mazda.com.au

EXTRAVAGANCE

The portable sound of music

Listen to music at home or at the beach with the Elipson Lenny portable bluetooth speaker, which has an eight-hour battery life and is weather-resistant.

***How much:** $599*
***Where to buy:** Visit audiodynamics.com.au for stockists.*

WEBFIND

PARCL.COM

Like to shop online for exclusive overseas products? Parcl.com can overcome domestic-only shipping restrictions. Communicate one-on-one with individual parcel forwarders and get quoted a competitive rate to bring your goods home.

Steph Nash

SMART TECH

Apples scores a winning double

But weaker Aussie dollar causes pain

Apple usually unveils its biggest new products in a duo of presentations held over September and October but this year it seems to have rolled all its splashiest announcements into one extravaganza. As well as unveiling the expected new iPhones, it also showed two long-rumoured new products.

First up is the iPad Pro, the largest and most powerful tablet Apple has ever made, designed to effectively replace notebooks and appeal to business users. Second is the new Apple TV, a major upgrade to the series that transforms the lightweight set-top box into a slick new entertainment and gaming system.

The only downside for Australian Apple fans comes courtesy of our weaker currency. Since this time a year ago, the Australian dollar is more than 20¢ down against the US dollar, which means new products in some cases cost hundreds of dollars more than their equivalents a year ago. Ouch! PETER DOCKRILL

What is it? iPhone 6s and 6s Plus
How much? From $1079
Pros: Apple only does a major iPhone redesign every other year, with its "s" model upgrades focusing on refinements instead. But the company is at pains to emphasise that the 6s and larger 6s Plus (from $1229) are worth your attention. The biggest new features are 3D Touch and Live Photos, which turns still photos into mini movies.
Cons: None but at up to $1529 these are by far the least affordable iPhones yet.
apple.com/au

What is it? iPad Pro
How much? $US799 (Australian pricing TBA)
Pros: iPads have always been sleek and capable but compared with notebooks and desktops they're decidedly lacking for some pursuits. Apple aims to change that with the iPad Pro, a 12.9in tablet with a much faster chip, 4GB of RAM and support for multi-tasking, plus new accessories such as a stylus and keyboard.
Cons: Apple is playing catch-up here but that doesn't make us want the iPad Pro any less.
apple.com/au

What is it? Apple TV
How much? From $US149 (pricing TBA)
Pros: It looks as if Apple is finally getting serious about its living-room entertainment device. The revamped model sports more powerful innards and a new operating system, and will run its own apps and games. A new remote offers Wii-style gesture–based gaming opportunities.
Cons: More expensive than lightweight media players but less powerful than dedicated gaming consoles.
apple.com/au

GIVE IT UP

UnitingCare & Target Christmas appeal

What is it? Once known as Operation Santa, the appeal helps needy families celebrate Christmas. Target stores around Australia will accept unwrapped gifts and cash, in the hope that all children will be able to enjoy the festive season. For every Christmas bauble purchased, Target will donate $1 to the appeal.
Where your money goes: Now in its 24th year, the appeal wants to raise $1 million. There are about one in six children living in poverty, and last year the appeal helped over 42,000 families put food on the table and find temporary accommodation at Christmas. All gifts are distributed by UnitingCare staff and volunteers.
How to donate: Unwrapped gifts and spare change will be accepted over the front counter at all Target stores from November 3 to December 24. Or see unitingcarechristmasappeal.org.au.
STEPH NASH

COMPARE THE PAIR

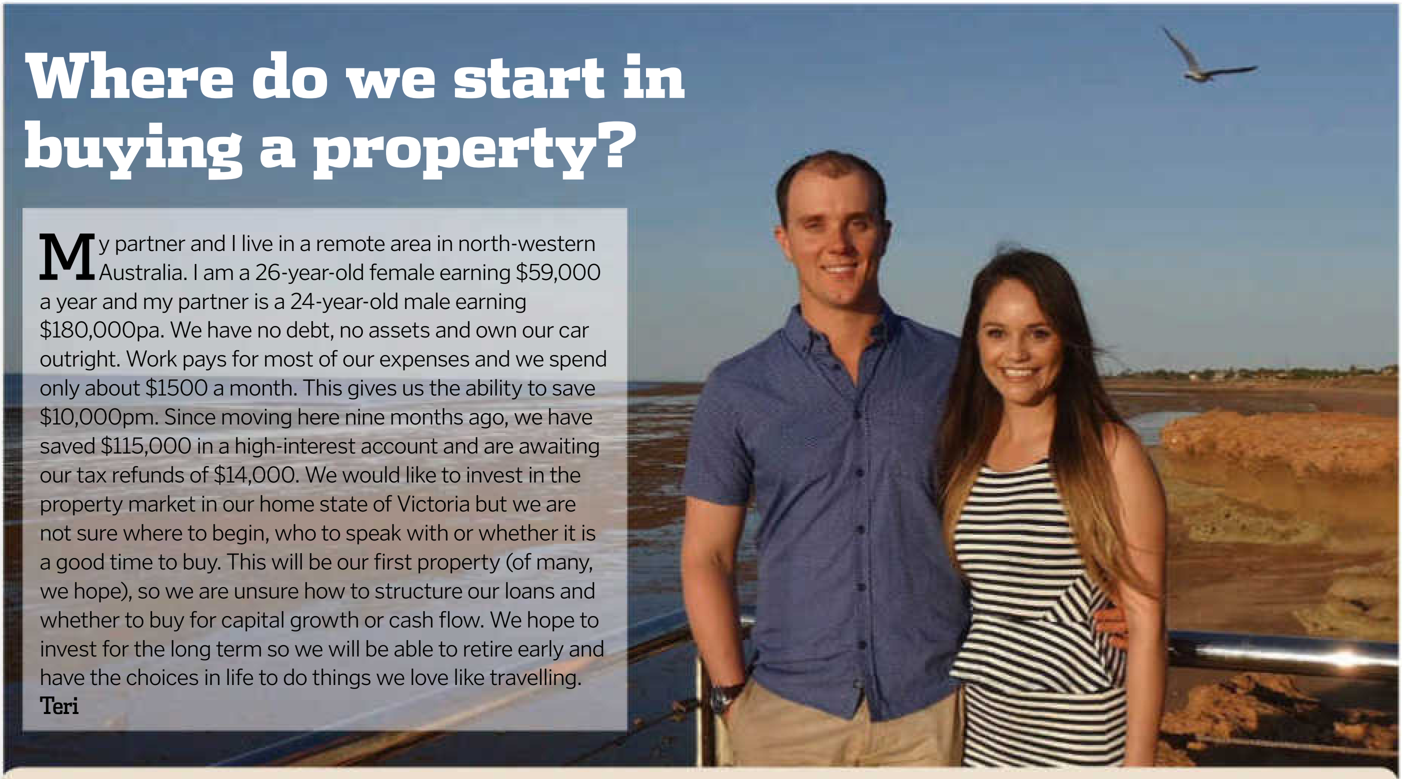
Ultra HD televisions

Enjoy a clear view of the world

What is it? Kogan 55in Agora 4K smart LED TV (ultra HD)
How much? $1199 plus delivery
Info: Kogan's "home brand" ultra HD TV comes with internet access, is Netflix compatible, and can be controlled by any Android 4.4 device. Plus a digital recorder and one-year free warranty.
kogan.com/au/

What is it? Sony 49in 4K Ultra HD LED Smart with Android TV.
How much? $2299. Free shipping.
Info: Sony's top-of-the-line TV is ultra HD with 4K resolution. It comes with Android TV, USB playback and one-year free warranty.
sony.com.au
STEPH NASH

Where do we start in buying a property?



My partner and I live in a remote area in north-western Australia. I am a 26-year-old female earning $59,000 a year and my partner is a 24-year-old male earning $180,000pa. We have no debt, no assets and own our car outright. Work pays for most of our expenses and we spend only about $1500 a month. This gives us the ability to save $10,000pm. Since moving here nine months ago, we have saved $115,000 in a high-interest account and are awaiting our tax refunds of $14,000. We would like to invest in the property market in our home state of Victoria but we are not sure where to begin, who to speak with or whether it is a good time to buy. This will be our first property (of many, we hope), so we are unsure how to structure our loans and whether to buy for capital growth or cash flow. We hope to invest for the long term so we will be able to retire early and have the choices in life to do things we love like travelling.
Teri

PAUL'S VERDICT: DO YOUR RESEARCH AND USE COMMON SENSE

Look in a well-located suburb and don't expect to pick up a bargain

Hi Teri. I am delighted to see that you have a sound long-term plan to create wealth early so you can do the things you love, such as travel. Shortly we'll have a minor argument about whether a property-only strategy is the way to go but the key issue for me is that you do have a plan and your savings put you in a position to make this plan happen. I suspect that working in the remote north-west is challenging and lifestyle options are pretty limited. But the big plus is you can really save, and $10,000 a month is just terrific – good on you both.

My advice is to ignore a lot of the stuff you read about: salespeople push positive cash flow properties, others push capital growth potential. But property is a common-sense asset and I would really like you to do your own research. In particular, avoid property seminars like the plague. They are run to benefit the promoters, not the attendees, who all too often end up buying overpriced properties in poor locations.

So let's go with common sense. Australia's population will continue to grow, hence the demand for property in areas with jobs, public transport, modern facilities, schools, healthcare, a nice community feel and decent coffee will do well. If you use these characteristics to choose where to buy, I do think you'll end up looking at established, near-city suburbs. So you won't get a bargain, nor will you get high rental returns. Most sensible people also go for the obvious, so well-located properties sell for pretty much market price. The good news is there will be plenty of properties to look at and lots of recent sales, so you will have genuine market data about real selling prices.

Start looking online to get a feel for prices in the suburbs that appeal to you. I always recommend buying property you would live in – if you'd live there chances are it will rent well and, if needed, sell well. Now is not a bad time to buy. Sure, prices are high and, while I don't see a collapse, I do think this boom has started to slow. Prices may go back a little but if you buy good property in a good location, don't overborrow and are prepared to hold for the long term, it is hard to see how you can go badly wrong. Mind you, it is important that you spend time looking at properties – the internet is a great guide but don't buy sight unseen.

I am perfectly happy for you to build a property portfolio – but with a couple of reservations. Borrowing is a good plan but be very careful about basing your borrowing capacity on your current level of savings. The longer-term job prospects for you and your partner are critical when it comes to supporting debt.

Also, at some point rising interest rates will push the market backwards. You need to make sure that you can hang in and meet your repayments. Gearing looks great as markets rise but on the way down it magnifies your losses if you have to sell.

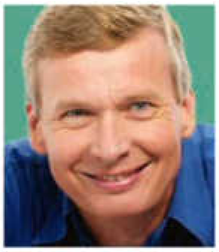
Equally, over time I really would like to see you both build your super. This is typically invested in shares, infrastructure and commercial property by professional super managers. This spreads your risk and gives you diversification.

ASK YOUR QUESTION

If you have a question, email money@bauer-media.com.au or write to GPO Box 4088, Sydney NSW 2001. Questions need to be 150 words or less and you must be willing to be photographed. Readers who appear on this page will receive a six-month subscription.

IT'S THE QUESTION on everyone's lips – where should I invest? *Money* goes straight to some of Australia's top experts to get the *answers* to some of the top questions we hear from our readers – from finding high-yielding shares to investing in property for just $50 a week. Plus our experts reveal where they would invest $10,000 now.

■ SCHOOL FEES



What is the best way to save for my kids' education?

STORY
PAUL CLITHEROE

Saving for the kids' education is a really good idea but it needs to fit into your overall life plan. I would love to tell you that we did exactly that for our three kids – but we didn't. I started my company, ipac, in 1983; we had no kids at that stage. Much to our joy they came along in 1987, 1989 and 1994.

In 1987, when our son was born, education was a key issue for us. However, while ipac was going well, my pay – as is the case for so many small-business people – was very low. In 1989, our first daughter was born. Interest rates on our mortgage peaked at 18.75% later that year, so we concentrated on not losing our home. When our second daughter was born in 1994, interest rates were falling but financially we were only just recovering. So despite our strong views on a good education, the fact is we had saved the house but that was about it.

Fortunately, as our first child was starting school, my pay had moved up, so we were able to pay school fees from my earnings. It was the same for our two daughters. I must admit that when we had three kids in private school, our school fees were huge and we wished we had saved. But to be frank, we felt the best way to pay future school fees was to pay off our home and reinvest in ipac. This was a terrific plan. It worked. What we did like was the spread of risk that came with investing in ipac and paying off our home. We felt this gave us the best base to meet expenses such as school fees.

But everyone is in a different situation. As a business owner, my wages for a few years were zero, then pretty basic for another five years or so, but then a lot better. If I had been employed and started out on a reasonable wage with more predictable increases, an education savings plan would have been sensible, in particular if our mortgage was at 4%, not well over 14%. Even if we had had an education saving plan, we would have added this to our mortgage. Where else could we earn such a high return tax free?

Today, with mortgage rates so low, I would look elsewhere for a kids' education fund. Personally I would not use a "packaged" education fund. I find the restrictions in terms of access to my money – and often the investment policy – incompatible with my views. So my advice would be to invest for the kids yourself. You may have to do this "as trustee for" your kids to avoid the high rate of tax levied on unearned income for minors. But this is not a great drama; it's always best to do this in the lower taxpayer's name, for example "Mrs Joan Smith as trustee for ... " or Mr Smith if he is the lower taxpayer. If you have little interest in investment, a low-cost exchange traded fund (ETF) would be a good choice. One of Vanguard's Australian or international funds would do fine but there are plenty of other choices.

My way would be to buy shares for each child. You can do this very cheaply with an online broker. If you buy well-known names such as our banks, food retailers or a resource company and stick with it, adding to it as you can for a decade or so, I would be surprised if you did not find it to be a good investment.

Paul Clitheroe is Money's *chairman and chief commentator, chairman of the Australian government's Financial Literacy Board and a best-selling author.*

Where I would invest $10,000

Well, this is nice and easy. Our resource companies have been flogged due to the downturn in commodity prices. As I write, BHP Billiton is at around $22, which is less than 50% of its share price a few years ago. Guess what? The world population is growing dramatically and energy is a key need. For all I know, prices could get smashed further in the next year or two but I would be pretty surprised. So if I had $10,000 to invest right now, I'd be doing exactly what I have done for the past 40 years: open my eyes and look at long-term demand and buy quality companies when everyone else is selling them.

GETTY IMAGES

■ **RETIREMENT PLANNING**

I am a few years off retirement and I don't think I'll have enough money. How can I make up the shortfall in the time left?

STORY
PETER SWITZER

If you're a few years off retirement and you haven't got enough money, then I'd conclude that being money smart is not your long suit. I know some financial planners overcharge and create plans that suit them more than their clients but there are some good ones out there and you should do some research and find out how you can improve your potential retirement situation.

What you need is a set of objective eyes to ensure you're using the rules and tax concessions available to you.

For example, are you salary sacrificing? Are you on a transition-to-retirement pension, which, if you're over 55, can take your tax on super to zero? Other questions are:

- Are you in the right super fund?
- Should you be in a self-managed super fund (SMSF) to maybe invest directly in property or reduce your fees?
- Does your tax position mean an investment property could be a sound idea?
- Is downsizing a good idea, so you can make a non-concessional contribution into your super? Your age will determine how much you can slam into super before your retire.
- Could you think of doing some part-time work to reduce the drawdown on your capital?
- Would a reverse mortgage or a Homesafe solution, cashing in some of your home equity, be a wise way to KO your cash-short situation?

The one thing you must think about is that without advice from someone who thinks about retirement strategies 24/7 (as great financial advisers do) you could be missing out on both money-saving as well as money-making opportunities! And clearly, given you've admitted that you have a cash problem, you need a trustworthy adviser.

Another issue you need to consider is that your retirement nest egg shouldn't have a dead-end, where you don't go any further in building wealth. That's an old idea, which was OK when we retired at 65 and, say, died in our 70s but we're now living into our 80s. The irony is that many retirees look at their super amount and think, "Gee, I could spend that in 10 years", without working out what the fund might do in the investment area.

And then there are also the full- and part-pension options. I've seen many people who think their super won't be enough but they haven't talked to Centrelink or an adviser, who would instantly factor in these government payments when trying to work out the post-working-life picture for a client.

I could offer a whole lot of money-making ideas but I don't know enough about you and that's crucial. One bit of advice never suits everyone, except in the case of someone in their 20s, when I could give them universally smart advice that would ensure they end up being multimillionaires in retirement if they followed my super rules.

However, someone close to retirement with money worries in all likelihood has unwisely failed to invest in great tax and financial advice. The false-economy way would be for this person to continue to save a few thousand dollars by not seeking help and end up with an inadequate situation in retirement.

Sure, you could say that a financial planner would say that but, when I was asked to play tennis with Gerry Harvey, I didn't practise with someone who can't play tennis. I paid for lessons to improve my game! I don't draw my plans for my home extensions and I don't do my bookkeeping, even though I have a master of commerce degree.

I work in my strength zone and allow others with expertise to help me eliminate my weak areas.

Peter Switzer is founding director of Switzer Financial Planning, a flat-dollar fee-for-service financial advice business. He gives his daily insights on switzer.com.au.

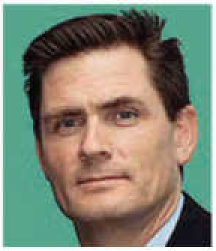
Where I would invest $10,000

When someone asks me for a share tip for $10,000, I regularly say: why don't you by the sharemarket? When my financial planning team creates a portfolio for a client, they look at 20 stocks so there's limited exposure to any one dumb CEO or silly government decision that can impact a company's share price.

When you have $10,000, it's hard to get diversity, so if you bought an exchange traded fund (ETF) such as the SPDR S&P/ASX 200, you get all the stocks in that index. I think the market is oversold at around the 5000 level and, even if it falls some more, I expect it to eventually track up to 6000 – if not in 2016, then some time in 2017.

If it happens in 12 months, then you'd make 1000 points on 5000. That's a 20% gain. And when you include dividends and franking credits, let's make it a 26% gain. If it takes two years, then it's a 13% gain a year but that's miles better than a term deposit at 2.5%.

INCOME FROM SHARES



Which shares or other investments can give me a second income of $20,000 a year?

STORY
MARCUS PADLEY

The starting point for all income investors is what they can earn risk free. At the moment you can almost earn 3% in an essentially risk-free term deposit. In other words, you could earn $20,000 risk free if you invest around $667,000 in term deposits. The question is whether you have $667,000. And that $20,000 is before tax. If you have less capital, you'll need a higher yield and the game becomes a trade-off between yield and risk.

Australian government bonds will yield about 1.8%pa to 3.4%pa. Corporate bonds are a specialist product. One of the best operators in our market is FIIG. It will tell you on its website that a portfolio of bonds can yield up to 5.78%. Then come mainstream hybrids, which have running yields from 3.2% to 6.5%, including franking. Hybrids were very popular until their complexity and risk became more widely understood and some of the recent issues disappointed. They have all been tarred with the same brush – which is a shame, because there are some significantly higher yields to be had for a relatively small increase in risk.

Then there are around 75 listed investment companies (LICs), thousands of managed funds and around 130 exchange traded funds or products (ETFs/ETPs), which are simple ways to get exposure to almost any asset class. Some of the more recent ETP/ETF issues have targeted income-hungry investors. But a word of warning: check the capital performance. While some boast high yields, their capital performances have been dismal, which rather negates the "income" attraction. It's no good if all they do is pay back your capital.

BANK SHARE RETURNS

ASX CODE	ANZ	CBA	NAB	WBC
Price	$27.52	$74.27	$30.54	$30.39
Year high to Sep low	-29.2%	-27.1%	-25.5%	-27.4%
PE ratio[1]	10.00x	13.06x	12.28x	12.22x
Yield	6.68%	5.78%	6.60%	6.23%
Gross yield[2]	9.54%	8.26%	9.43%	8.90%
ROE[3]	15.5%	18.5%	12.5%	16.5%
Forecast ROE[4]	14.2%	17.4%	13.3%	15.9%

Source: Marcus Today as at 30-Sep-15 [1]Price-earnings ratio [2]Includes franking credits [3]Return on equity [4]1-year forecast

A good risk-reward trade-off is the yield you can get on a multi-sector or equity fund. This can range from 4% to 7%, depending on the share franking and the sectors, and for many this is acceptable, with the trade-off being that you have to take some "market risk" – equity markets go up and down. A "market" ETF, managed fund or LIC such as AFIC, will yield 4%plus at the moment, or 5.75%-plus including franking, for an average market risk.

But I am a direct equities man and the stockmarket has just dropped 18% and the bank sector – our highest-quality income stocks – has just fallen 26.7%. I can see no better risk-return trade-off for income investors at the moment than the major bank stocks.

No one is saying bank shares didn't need an adjustment from the heady heights they hit earlier this year while the safe-income bubble bubbled. But after share issues worth $15.5 billion in the past four months, stocks such as ANZ Banking Group are trading on a GFC-style price-earnings ratio (10.6x for ANZ) and the sector looks oversold. At their peaks the banks will trade at PE ratios as high as 17 times with yields of less than 5%, so unless we see some reasonably significant earnings downgrades (which seems unlikely) the current PE ratios of 10.6 to 13.4 with gross yields of 8.26% to 9.54% make the shares cheap in a historical context.

If the numbers are right, they are about as good as they get. And, in an interest rate environment where retirees struggle to get a 3% return from term deposits, if the dividend forecasts are right, anyone who "just wants 7%" can now get 9% with a very good chance of a capital return as well. With an average yield of 9.03% you will need just $220,000 invested in the top four banks equally to return $20,000 a year. And that would be my recommendation from here. Invest $55,000 in each of the top four banks and leave it at that.

Marcus Padley is a stockbroker and the author of the daily stockmarket newsletter, Marcus Today. *For a free trial of* Marcus Today, *go to marcustoday.com.au.*

Where I would invest $10,000

I can see no better risk-return trade-off at the moment than the major bank stocks, as the sector looks oversold. At their peak, the major bank shares will trade at price-earnings ratios as high as 17 times, offering yields of less than 5%. Unless there are some significant downgrades to their earnings – which I think is unlikely – the current PE ratios (an average of 11.9) and gross yields (average 9.03%) offer 25% worth of capital upside plus the yield, if the sector simply recovers to a PE ratio of 15. For a $10,000 investment, I would simply pick one of the major banks. On a PE ratio of 10.6 and a 9.54% yield – assuming the forecasts are right – ANZ has the most upside. I'd buy ANZ.

GETTY IMAGES

■ PROPERTY INVESTING

How can I afford a property for, say, $50 a week? What areas should I consider?

STORY
JANE SLACK-SMITH

For every investment property I buy, I try to have three ways it will make me money: buying below the market; renovating to add instant value and push up the rent; and choosing an area with above-average capital growth. This is my Trid3nt Strategy.

To help me find where to buy for $50 a week or less I have called in Jacob Field, the founder of Ripehouse and Residex. Ripehouse's software analyses all the areas in Australia to find Sweet Spots that outperform other streets in that suburb by more than 20%. There are further filters for high rental demand, excellent yield, low public housing and accessibility to prime infrastructure. Having chosen 10 Sweet Spots, I then examined these against Residex's predictions for capital growth.

As capital cities are too expensive right now, I have looked further afield. In Morayfield, 38km north of Brisbane, the median price for a typical property, a four-bedroom house, is $336,000. About 32% of the residents are renters and there's a healthy yield of 5.3%pa. Residex predicts Morayfield will have 9%pa growth over the next five years, making the property worth $516,000 in five years at a cost of less than $50 a week. According Ripehouse, there are four Sweet Spot areas, or about 800 likely dwellings across 31 key streets.

Then there is North Albury, in NSW, which has two Sweet Spot areas and where the median price is $211,000 for a typical three-bedroom house. There's an excellent 5.9%pa rental return and the vacancy rate is low at 0.26%. Residex predicts growth of 5%pa over the next five years, which will result in a property valued at $320,000. It would cost less than $20pw to keep.

As there are only 200 dwellings in each Sweet Spot, you will have to watch them carefully to find your property and you may have to pay a bit over the median price because of the better expected performance. These two locations and their six Sweet Spots will give you growth and yield and cost less than $50pw, but what if you could increase the property's value and the rent with a simple renovation? Every month Residex's *Renovator Report* calculates the value of every property in Australia. It calculates if it is possible with a cosmetic renovation costing no more than 10% of the suburb's median value to make a 20% profit.

Of the 31 streets in Morayfield, there were many cases where the value could be increased by $70,000-plus; in more than six the value could be boosted by more than $100,000 with a $35,000 renovation. In North Albury's two Sweet Spots, there were 11 streets in which you could create more than $70,000 worth of value with a $21,000 house renovation.

As you can see, you can stack the odds in your favour by using great analysis tools and my Trid3nt Strategy. So you make money in at least two ways – capital growth and renovation – for as little as $50pw.

Jane Slack-Smith is Investors Choice Mortgages director, founder of Your Property Success online education and the flagship Ultimate Guide to Renovation course. She is the author of Your Property Success with Renovation.

Where I would invest $10,000

For the owners of existing properties, a strategic renovation could improve the value by at least $20,000 and increase the rent as well. For $10,000 you could knock off a new bathroom or kitchen – the big-return items – and with new paint throughout and new carpet this would transform your property.

You don't need to rip out everything. You could repaint the benchtops, cupboard doors and tiles in the bathroom. Add to this a clean-up out front and in the garden to improve the street appeal, painting, new light fittings and carpet. This could all be done for much less than $10,000.

INVEST FOR < $50 A WEEK

PROPERTY (YEAR 1)	MORAYFIELD (QLD)	NORTH ALBURY
Purchase price	$336,000	$211,000
Lenders mortgage insurance	$5000	$3630
Mortgage	$307,400	$193,530
Mortgage interest (4.59%pa)	$14,110	$8883
PURCHASE COSTS		
Deposit (10%)	$33,600	$21,100
Stamp duty	$11,000	$7500
Line of credit loan	$44,600	$28,600
LOC interest (7.7%pa)	$3412	$2188
Rent return	5.3%pa	5.9%pa
Rental income	$17,808	$12,449
DEDUCTIBLE EXPENSES		
Total interest	$17,522	$11,071
Council rates	$1500	$1500
Insurance	$1000	$1000
Agent letting fees (6%)	$1068	$747
Repairs	$800	$800
Vacancy (2% allowance)	$356	$249
Total cash outflow	$22,246	$15,367
Depreciation on fixtures	$3500	$3500
Total expenses for tax	$25,746	$18,867
Rental income (5.3%)	$17,808	$12,449
TAX		
Property income minus expenses	-$7938	-$6418
Combined tax refund (32.5% margl rate)	-$2580	-$2086
Net cash outflow	$1858	$832
WEEKLY OUTFLOW (AFTER TAX)	$36	$16

Notes: Old properties, so no capital allowance; only a selection of expenses. The LOC is interest only and is based on home equity. The LMI is capitalised into the mortgage (secured against the new investment) and the interest is deductible, so it cannot be claimed as a purchase cost. The couple (earning $64,000 and $76,000) are both on marginal rates of 32.5% (unaffected by the rental income and deductible expenses). So their combined tax refund is 32.5% of the property income minus its expenses.

AFFORDABLE LOCATIONS

I'd like to invest in property but have a small budget. Where are the best buys under $600,000?

STORY
MARGARET LOMAS

It's important to know that the success of any property investment is not driven by price. It's a mistake to think that the more you pay for a property the better it will perform. In fact, the reverse can often be true. As the value of a property rises, there will be fewer people in the market who can afford to pay for it, and so less pressure on it to sell and so rise in value.

In addition to this, the relative rental yields tend to reduce as the value of a property rises into the higher categories. It's not unusual to find more affordable properties generating rental yields of, say, 5% to 6% while those properties in higher price brackets may return a disappointing 3% to 4%.

So instead of asking "I have $600,000 to spend, where should I buy?", the question should be "Where is the best place to buy right now for both yield and growth, and do I have enough money to buy there?"

At present, it's obvious that opportunity in the Sydney market has passed. It's time to move on to an area that shows it has the capacity to grow into the future and preferably provide sustainable growth over many years, rather than booms and plateaus. To achieve this, an area must show a number of characteristics, all of which combine to create growth. Among these characteristics are:

- A population growing faster than the national average.
- A population mix but with a predominance of families.
- Services that are likely to keep families in the area – sporting facilities, schools and community and family services.
- Very little new land available for additional housing developments.
- Diverse employment opportunities.
- A median household income that is growing faster than inflation, improving the affluence of the area.
- Improving infrastructure, including transport such as rail and bus services and suitable arterial roads connecting the area to larger centres.

Areas displaying all these drivers are ones that achieve generational growth – the families anchor to the area, keen to stay while their children are still in school. And due to the lack of new housing developments because of the limited sites, pressure is placed on established housing. While the local council is providing all the necessities for those families to enjoy a fulfilled lifestyle and employment opportunities exist, either within the area or within a suitable commuting distance, we should see prices growing every year, year in, year out.

At present, both the northern and southern suburbs about 15-25 kilometres from Brisbane CBD show all these characteristics, and prices are already beginning to respond. In these areas, it's possible to buy two properties for around $600,000, and so the astute investor might consider buying one in the north in and around Deception Bay and one in the south somewhere in the Logan area.

For those who prefer Melbourne, there are significant opportunities in the south, towards Frankston, and include Carrum Downs, Seaford and Cranbourne. These are previously low-income areas undergoing demographic change and being pulled upward by the surrounding suburbs' developments, such as the prestigious Patterson Lakes. Again, $600,000 is likely to buy two here, or for those who like to diversify, why not one in Seaford and one in Deception Bay?

Margaret Lomas is founder and director of Destiny Financial Solutions and the best-selling author of seven property investment books.

Where I would invest $10,000

For property investors, $10,000 is not anywhere near enough to get into the market, unless it is through a listed trust. Units in such a trust can provide an exposure to property without the investor taking on all the risk alone. An investment in a well-performing trust can increase the value of the $10,000 to the point where it may become enough for a deposit on a property.

If you already own a property, $10,000 spent on a renovation may result in a slight increase in the value. Depending on how vibrant the market is, new paint, a resprayed bath and new vanity, and a new kitchen benchtop and splashback can often add value. Be careful, though – sometimes the value added through such a renovation is little more than what you spend, and in a declining market cosmetic renovations rarely add any value at all.

GETTY IMAGES

■ **BUILDING WEALTH**

I have paid off my mortgage so what should I do with the spare money?

STORY
ROSS GREENWOOD

A home owner should pay off their mortgage as quickly as possible – even if it's only one day earlier. To explain: interest payments on an owner-occupied home are not tax deductible. But if you pay off that home – even one day earlier– and then borrow against that home for investment purposes, then the interest on the debt becomes tax deductible.

For a wage earner paying 37¢ in the dollar tax (earning between $80,000 and $180,000) the difference between the effective interest rate is between 4.5% after tax for an owner-occupier loan or 2.97% after tax for an investment loan.

So the correct strategy for any smart working person is to make it their business to repay their home loan in full and then to reborrow for investment purposes.

The traditional investment strategy for most Australians has been to borrow to buy an apartment or another house and historically that has been a prudent thing to do.

But right now I would seek alternatives. The risks in the major capital city housing markets are rising as the yields have been crushed by higher prices and lower interest rates.

The reason property has been a great investment – and will be in the future – is a landlord's ability to raise the rent. Unlike a term deposit, shares and property offer flexible income streams. Typically rents – or share dividends – rise with increased prosperity and demand.

But right now, after building booms in Sydney and Melbourne, there is a strong supply of apartments and houses. Although the property industry suggests there is still insufficient accommodation to cope with the eventual rising population, there is likely to be enough for the foreseeable future.

The next issue is wages. Property prices, especially in Sydney, have pretty much exceeded the ability for typical wage-earners to afford them. But investors also have a dilemma. Wages growth in Australia is the slowest in 20 years.

If you have a strong supply of apartments and houses but slow wages growth, where is the opportunity to keep pushing up rents? It is very limited and many investors in the coming few years should be satisfied just to keep their tenants in place.

Then we come to yield. As property prices have increased, yields have fallen because the rental increases have not kept pace with the prices.

Let me take you through a scenario: The median value of houses in Sydney is just more than $1 million, according to CoreLogic RP Data. The rent on Sydney houses averages about $30,000 a year. So the average return, or yield, is about 3%.

To increase returns, a landlord could think about raising their tenant's rent. But right now, with plenty of apartments being built for investors – and wages growth the slowest in 20 years – increasing rents is difficult.

Let's say late next year the Reserve Bank raises interest rates by 0.25%. That rise will be reflected in all investments that produce income: bank shares, Telstra, Medibank Private and investment properties.

So the rental yield on our typical property will also rise – theoretically to 3.25%. The new yield, with a rental return of $30,000, implies a theoretical property value of $923,000. In this hypothetical situation, the house value will have fallen by $77,000, or 7.7%.

But this is theory: buyers and sellers have emotions. Many will refuse to sell under such circumstances; others under pressure may be forced to take even deeper dips. Some may squeeze out rental increases. And properties in each street, in each suburb will behave quite differently.

This is simply a hypothetical scenario that says anybody with spare funds should be conscious of how and where they invest. And people who find themselves without debt and accumulating wealth for retirement should be careful about how much they borrow, even as interest rates continue at record lows.

There are opportunities that will present themselves, such as bank or energy shares on days when the sharemarket tanks. But you will want to make certain there is enough margin left in there for you if rates do rise, taking a range of investments with them.

Ross Greenwood is Channel 9's finance editor and Radio 2GB's Money News *host.*

Where I would invest $10,000

It's a no-brainer. First, pay off non-tax-deductible debt. That means credit cards, then mortgage. Then close your eyes. Dream about the world in 30 years. What do you know? You know the world population will have grown from 7 billion to 9 billion, mostly in China and India. You know Sydney and Melbourne populations will have grown from 4 million to 7 million.

Technology will keep changing things but some basics will never change. A growing population will need food, energy, water and shelter. So while some will try to guess about game-changing technology I would prefer to invest in agriculture, food services, healthcare and energy stocks.

But this strategy is well known, so there's one other trick. Buy these stocks on days when the market dumps everything. Have the cash ready to move on the panic-stricken days. Then wait.

What to watch: Ramsay Health Care, CSL, Woodside, GrainCorp, AACo.

■ SAVING FOR A HOME

I'm willing to take some risk, so how can I save a house deposit while renting?

STORY
MARK BOURIS

In the first instance, make a household budget that clarifies how much you need to live each month. Then create separate bank accounts for living and saving. You must "pay yourself first" with a direct debit on your salary into a savings account that is different from your living account (which you spend and pay bills with).

Set a target amount that you need for the house deposit and a deadline. Let's say you're three to five years away from the purchase. Take 90% of the deposit goal and divide it by the number of months between now and that point. Now you have the amount you add into savings each month.

But what should you invest the savings in to make your money work as hard as you do?

The higher the returns you seek, the greater the volatility and, with greater volatility, you have to stay invested for longer to ensure you can ride out any shorter-term falls that these investments experience. For shares and property, this means about an eight- to 10-year view. Thus shares on their own would be too risky to invest in if you needed to cash them in sooner for that essential house deposit.

If you have set yourself less than three years to buy the house, I suggest keeping your savings in cash or term deposits as they are capital guaranteed by the government up to $250,000. Before you lock yourself into an account, be sure to shop around. There is a real spread of returns – have a look on the internet and you'll see a difference of up to 1% on interest rates.

Alternatively you could try a slightly more risky but usually better-returning "active cash managed fund" that invests in bonds and cash. An example of this type of savings solution is my company's Smarter Money Active Cash. It aims to return 1%-2% a year more than the Reserve Bank cash rate after fees, and you aren't locked in for any set time frame.

If you're saving for a house deposit over three to seven years, try a mix of cash and active cash investments and bonds, say 75%, and some defensive equity managed funds for the rest. This gives you a secure foundation for your savings but with some growth from shares.

Fund managers call this mix a "conservative portfolio". All the big-brand fund managers offer one but you must do your homework on fees. All Australian conservative funds are invested in similar assets, so the one charging 0.7% is better for you than the one charging 1.7%.

For those wanting a more hands-on solution, consider creating your own "conservative" savings vehicle, although you generally need at least $10,000.

This is how you can set that up:

- Start with a fixed-interest managed fund (75% of the whole amount). Smarter Money Higher Income Fund is one that is actively managed, which minimises the impact of rises in interest rates that would normally trigger a fall in the value of your investment.
- Add an Australian equities exchange traded fund (ETF) for the remainder. This exposes you to major local shares and the cost is very low. One of the market leaders is Vanguard Australian Shares ETF. It can be purchased via a broker with the ASX. An index managed fund, also by Vanguard, is very similar but costs a little more. Both are considered low cost.
- Push the boat out a little further and assume more risk. Then consider investing the 25% portion of your funds with a professional investment manager or fund. There are ones that specialise in building a steady level of returns and protecting your funds from the impact of market corrections. There are different options available but Yellow Brick Road Protect Equities is worth a look.
- Importantly, one year before you think you will want to cash in your investments, start transferring a 12th every month on the same date to a cash bank account. This is a simple way to manage the risk that a market fall will have a serious impact on what you have accumulated.

Mark Bouris is executive chairman of Yellow Brick Road and has more than 25 years' experience in property and finance sectors.

Where I would invest $10,000

Because of my life stage, I'd generally recommend a windfall of $10,000 would be best invested in my super due to the tax treatment. However, my favoured type of investment is private equity – invested in businesses and entrepreneurs. If I had a sudden $10,000 there is always a business that needs capital.

GETTY IMAGES

■ BUSINESSES SET TO BOOM

I'd really like to give up my job and start a small business. Are there fast-growing sectors that I should consider?

STORY
PHIL RUTHVEN

Three in every 100 households have a go at starting a business each year. That's a lot – nearly 300,000 – meaning entrepreneurship, or sometimes "buying a job" as they say, is alive and well in our exciting country. Fewer than a half of these new businesses will be active businesses; the rest will be for investments or non-operating for the time being.

There are 2.1 million businesses in Australia. The list makes interesting reading:

- More than 60% of businesses have no employees other than the owner(s).
- The most common-sized business employs one to four people, with revenue less than $200,000.
- Around half the new businesses will survive for only three years –a bit sobering.
- Around half survive for five years – more encouraging.
- The most businesses are in construction.
- The fastest-growing new entry rate is hospitality (accommodation and restaurants).

Australia has well and truly moved on from the agrarian and industrial ages, and there are many new – and more diverse – opportunities now. Almost every industry – officially there are 509 – has been created by households and businesses outsourcing things they used to do themselves.

Household services have enormous potential: we have only outsourced a third of chores and functions so far, leaving a lot of room for newcomers. Most require little capital. These days, the average household spends more than $35,000 each year on activities that were DIY at the end of the industrial age.

Businesses are also outsourcing activities that were once done in-house. And let's not forget overseas nations that outsource to us – jobs are being created by skyrocketing inbound tourism.

Digital disruption, including online selling, is leading to the creation of a huge number of new businesses such as Kogan.com. Clever multibillion-dollar IT businesses such as Atlassian are breathtaking and young entrepreneurs are often becoming millionaires through designing apps that are finding global markets.

And it is very heartening to know we have created eight times more jobs than we have lost over the past five years. Why should we worry about the closure of car plants and other manufacturers? We are replacing the jobs in these old industries with new – and often higher-paying – jobs every three or four months. Where's the problem?

No, there is a world of opportunity out there. Some people go into business to "buy a job", and that's fine, if sometimes lonely and risky. Others build big businesses; a few create dynasties. But for those who make it – albeit the minority, as statistics show – it is an exciting new world. At the same time, the adage that an overnight success takes around six years is worth bearing in mind.

Phil Ruthven is founder and director of IBISWorld, an international corporation providing online business information, forecasting and strategic services. He contributes regularly to radio, TV, newspapers, magazines and documentaries.

Where I would invest $10,000

The advertisement that says "it is the fish that John West reject that makes John West the best" may turn out the best way to invest $10,000 as 2015 comes to a close. There are basically five asset classes available to all of us: cash, bonds, property shares and collectables.

Collectables are risky unless you are an expert. Returns from cash are too low. Ditto bonds, where rising interest rates devalue the capital value anyway. $10,000 is too little to get into property although a property trust can be a goer.

For me it's shares and I buy the index rather than try to pick winners. Shares yield around 5% plus capital gain over the long term. Yes, indices may still fall before they rise but I expect an average compound growth of 6%-7%pa on an end-September ASX index to the end of 2020.

Where the opportunities will be (to the late 2040s)

Household outsourcing • **Hospitality (meals, accommodation)** • Entertainment (clubs, casinos) • **Household services (everything!)** • Personal services (beauty, fitness) • **Health (everything!)** • Tourism (transport, agencies) • **Education services (preschool, tertiary)** • Child minding (preschool, nanny services) • **Finances (advice, management)** • Other services (including unmentionables) • **Overseas outsourcing (to us)** • Mining (energy minerals) • **Tourism (inbound)** • Possible new era in agriculture • **Education (mainly tertiary)** • Health • **Aquaculture (and crustaceans)** • Manufacturing (smelted ores) • **Intellectual property (royalties)** • Business outsourcing • **Trucking** • Facilities management • **Business services (legal, computing)** • Knowledge services (data, consulting) • **Cleaning** • Catering • **HR services (recruitment, staffing)** • Security • **Call centres/customer relationship management** • Operations (via franchising) • **New enabling utilities (and technologies)** • Information technology and communications • **Nanotechnology** • Biotechnology • **Just-in-time systems** • Self-service systems • **Online selling** • Disruptive/digital technology

DIY SUPER

I've set up my self-managed super fund, now which assets should I look at?

STORY
SAM HENDERSON

Don't you love that feeling of elation when setting up your SMSF, rolling over your funds, taking control of your life and being the master of your own destiny? It's matched only by that overwhelming feeling of "now what the heck am I going to do?". It's a common dilemma with SMSF trustees, so don't worry too much if you're feeling this way. What you do need to do is get on the front foot and start thinking like a fund manager.

This is also a good time to review why you set up the SMSF and what your initial plans were in running it. Most large super funds invest clients' funds based on risk profile. For example, if you are conservative you should have more of your fund invested in defensive assets such as cash and fixed interest; if you are more aggressive, you may want more exposure to growth assets such as shares and property. Your risk profile is a good starting point and then you can venture beyond the boundaries as your confidence builds.

In any case, the regulations say your SMSF must have a written investment strategy that considers diversity, the risk profile of members, the need to pay benefits, insurance, liquidity and the changing needs of members. You should update this regularly

Let's consider a simple three-step approach.

Step one is to work out how much of the fund will be made up of growth versus defensive assets. A conservative investor will have 50% to 60% or more invested in fixed interest or cash and 40% to 50% or less in growth assets such as shares and property; for a balanced investor, the typical default option for an industry fund is around 25%-35% invested in defensive assets and 65%-75% in growth assets; growth investors should consider 80%-100% invested in growth assets.

GETTY IMAGES

Step two is to ask yourself how much of your fund will be devoted to the five asset classes: cash, fixed interest, property, Australian shares and international shares. For example, a balanced fund may have 10% in cash, 20% in bonds, 10% in Australian real estate investment trusts, 40% in Australian shares and the remaining 20% in international shares. These can be used as a guide – remember there's no obligation to adhere to these benchmarks but they are designed to reduce volatility and smooth returns.

Once you've decided the asset allocation, step three is to work out what assets you'd like to hold in each of the asset classes. This will come down to your own research and opinion but for Australian shares I hold most of the banks (Commonwealth Bank, ANZ Banking Group and NAB), some healthcare companies (CSL and Ramsay Health Care are my current favourites), BHP Billiton and Woodside, REA Group, SEEK, Challenger and several smaller holdings and an exchange traded fund (ETF) or two. In the ETF space we hold BetaShares Australian Dividend Harvester and Vanguard Australian Shares High Yield. In the international sector, an area typically undervalued and underheld by SMSFs, we currently hold iShares Global 100, SPDR S&P Global Dividend Fund, Vanguard FTSE All-World ex-US and Vanguard MSCI Index International Shares. It may also be prudent to consider using ETFs for your fixed-interest exposure and even some Australian share exposure as I've detailed above.

We use ETFs to reduce brokerage costs and maximise exposure to particular markets in which we see value. The ones we use are easy and fast to trade and relatively cheap compared with managed funds and they don't pay commissions to advisers. For more information on ETFs, see the individual websites: Vanguard, iShares (BlackRock), BetaShares, UBS, State Street Global Advisors (SSgA) and others. Or go to asx.com.au. There are more than 100 ETFs listed on the ASX.

Sam Henderson is CEO and senior financial adviser at Henderson Maxwell and can be seen as host of Foxtel's Sky News Business program Your Money Your Call – Retirement. *He is also the author of three best-selling books.*

Where I would invest $10,000

If I had $10,000 I'd seriously consider an exchange traded fund such as Australian Dividend Harvester from BetaShares or Vanguard's Australian Shares High Yield fund. These are high-income ETFs with reasonable forecast growth rates and are perfect for an SMSF or other long-term investors needing reasonable income.

I like these investments because they're reasonably cheap and quite a blunt instrument for gaining exposure to the top 50 Australian shares. Local shares have been under pressure lately and therefore appear to be good value (around September and October at the time of writing) as they have been seen internationally as a proxy for Asian investments owing to our exposure to China and iron ore.

Typically when assets have come off their highs, such as shares, opportunity is presented and prices certainly look attractive. In addition, the banks and many other industrials are paying more than twice the yield of term deposits.

SUNDAY SHOPPING

Should the government scrap penalty rates for casual staff?

YES

Russell Zimmerman,
Australian Retailers Association

The ARA and a group of retailers are engaged in a review of the general retail industry award 2010 (GRIA) with the view to reducing the costs for retailers who trade on Sundays. Our position is based on the changing lifestyles of Australians who have indicated they consider Sundays to be a normal shopping day. Analysis by the Shopping Centre Council shows that between 2009 and 2014, Sundays had the highest growth in customer foot traffic to shopping centres.

The ARA is proposing a reduction in Sunday penalties from double time to time-and-a-half.

While we would like to see penalty rates reduced, we do not want to see them removed completely. Instead, we're seeking a compromise that allows for more sustainable rates so retailers can afford to provide more labour hours to people who would like to work on Sundays. Lifestyles are changing, and it's important to allow physical retailers the scope to keep up with this change and compete against new challenges.

NO

Ged Kearney,
Australian Council of Trade Unions

Penalty rates are vital for two reasons. First, they recognise the impact that unsociable hours on weekends and late at night have on workers and their families. Second, they are an important part of take-home pay and are relied on by workers for everyday essentials, such as bills, rent and groceries.

Workers in industries being singled out for cuts, such as hospitality and retail, are among the lowest paid in the economy. For them, penalty rates aren't extra pay – they help provide the basic income their families need just to get by.

There have been some instances where a rise in base pay has been negotiated in agreements that included a decrease in penalty rates. But an attempt to do so on an economy-wide scale would not only be almost impossible to implement, it would also ignore the significant negative impact of working outside the usual Monday to Friday, nine to five. Australians value their weekends and should be fairly recognised for giving them up to work.

Guard against cyber crooks

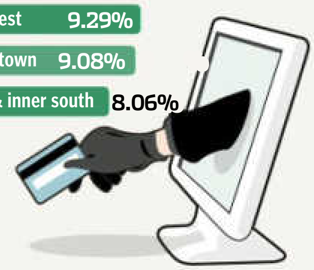
Technological disruption may be affecting our financial services industry in more ways than one, as a new cyber security report reveals that nationwide credit fraud has risen by almost 60% in the past two years. Veda's 2015 cyber fraud report shows that, in the past year alone, cases of online credit application fraud have increased by 33%, as criminals using hacking techniques more frequently to steal sensitive information from computers, mobile phones and social media accounts.

But we're not exactly doing our best to deter hackers. The report says that as a culture, we're incredibly relaxed when it comes to cyber security: 66% of users surveyed admitted they didn't regularly change their online passwords, 44% said they didn't use secure websites when making online transactions and 30% claimed to have published their personal details on a social networking site. The worst area for cyber fraud in Sydney was Parramatta (15.7% of reported cases) and in Melbourne it was the north-west (11.04%).

The report shows Australians clearly need to do more to protect their personal details by frequently changing passwords, selecting passwords with a range of cases, numbers and symbols, visiting HTML sites only and increasing their privacy settings on social media accounts. STEPH NASH

Worst eight areas for fraud
2014-15 reported fraud, Australia

Sydney: Parramatta	15.70%
Sydney: south-west	15.26%
Sydney: inner west	13.26%
Sydney: inner south-west	12.29%
Melbourne: north-west	11.04%
Melbourne: west	9.29%
Sydney: Blacktown	9.08%
Sydney: City & inner south	8.06%



SOURCE: VEDA

INSIDE MY MONEY THIS MONTH

6 things I hate about credit cards

The rorts should be stamped out – and here's a good place to start, writes Effie Zahos

PUTTING ASIDE THE RIDICULOUS fees, including surcharges, the unconscionable interest rates and the fact that plastic can take longer to repay than a home loan, there are six other things that annoy me about credit cards. Here's hoping that the Senate inquiry into cards, which is due to release its findings later this month, finally puts some of these absurdities to rest.

Limits on balance transfers

This is one of those traps you don't know about until you apply. Balance transfer cards often have a limit on the amount you can transfer. In most cases, it's a percentage of the new card's limit. Sounds crazy, I know – after all, the whole idea of these cards is supposedly to get you out of debt. So if you've got a $10,000 debt to transfer, it's best to ask for a higher limit than your existing debt so that you're able to transfer the full amount. If you don't, you may end up with two cards and in a worse situation.

You have to beg for rebates

Swap your cards regularly and you'll pay dearly if your old issuer doesn't offer you a pro-rata rebate on annual fees. Annual fees are generally paid upfront. Comparison site Mozo says that credit card providers are usually within their rights to not refund you a pro-rata amount but it has heard of cases where the issuer has refunded the fee, or a portion of it, as a gesture of goodwill. If you are chasing bonus points with the intention of closing the card after you've got your points, it's best to apply for cards with bonus points that waive the first year's annual fee.

Interest-free days

The total number of interest-free days comes from the monthly billing process

(generally 30 days) plus the time between the end of your monthly billing period and the due date, which is generally 25 days. If you're buying big-ticket items, do it at the start of your statement cycle so you have more interest-free days to pay. Your statement cycle should be on your credit card statement. If your due date falls at an inconvenient time, some card issuers will change it to match your pay cycle. It's worth asking as they don't generally advertise this.

When 0% is really 7%

As many as 22 balance transfer credit card in total now charge a transfer "handling" fee. I'm not sure what it's for, other than the obvious – to claw back some of the losses from giving a 0% introductory rate. The total cost of transferring, say, a $5000 debt to a 0% balance transfer deal that charges a 3% transfer fee and, say, an annual fee of $199 is actually 7% annually, not 0%. Don't be blinded by headline rates. Ask if there are any other fees and charges and then get them to calculate the effective rate based on the amount you want to transfer.

Fees for shopping overseas

Make an international $1000 transaction using your card and chances are you'll be charged an additional $29 fee, or $14.50 on top of a $500 spend. According to creditcardfinder.com.au, the average fee is 2.9% but they can go as high as 3.5% of the purchase. Cards that don't charge this fee include the Aussie Home Loans Low-rate Platinum card, Bankwest's Platinum MasterCard and GE Money's 28 Degrees MasterCard although, as creditcardfinder says, GE's purchase interest rate is quite high at 20.99% (the average credit card purchase rate is 17%).

What's classed as a purchase

Buy a lottery ticket with your credit card or pay a bill and you could instantly lose your interest-free days. Bill payments from your credit card can be processed as either a purchase or a cash advance. It all depends on how the biller is set up with the BPAY payment service. To find out whether a biller accepts credit card payments, visit BPAY, search for a biller, then look at the biller payment methods.

Luckily, creditcardfinder says it's unlikely that any interest-incurring charges will cancel your interest-free period for the rest of your balance. Instead, just those "cash advance" transactions will accrue interest, not other purchases you make during that period, provided you fulfil your card's interest-free condition, generally by paying off the balance in full each billing cycle.

Money's editor has more than 19 years' experience in the finance industry

GETTY IMAGES

Find the best bank deals

Make the most of the renewed competition, writes Anthony O'Brien

AS A SMALL BUSINESS-OWNER, you'll require banking products such as credit cards, business loans, online savings and transaction accounts to manage cash flow – unless you have vast personal wealth. Mozo director Kirsty Lamont says the banks are competing in the sector with more available credit and competitive rates.

"There's often a significant difference to the costs of business banking accounts, whether it's a credit card, loan or everyday transaction account," says finder.com.au founder Fred Schebesta. For example, Commonwealth Bank's Netbank Saver has a promotional offer of 2.85% on balances up to $5 million, while CBA Business Online Saver offers 1.4% for $10,000-plus.

A transaction account and credit card "are two simple tools to manage cash flow and expenses," says Lamont. "Credit cards are often used to manage expenses by taking advantage of interest-free periods. Plus, some rewards can be really valuable." But Schebesta warns: "Look out for the lowest purchase interest rate and be aware of annual fees."

Some savings accounts are specifically for businesses. "Look for the highest interest rate but be aware of short-term introductory rates which may change after three or six months," says Schebesta. ING Direct's Business Optimiser is the best of such accounts currently, says finder.com.au. It pays 3% before reverting to 2.25% after six months. "It's always a good idea to squirrel away savings for tax time, emergencies or large lump-sum payments throughout the year," says Lamont.

Schebesta says: "Fixed rates are handy for businesses because it can help you manage your cash flow by knowing your repayments won't change over the fixed term. But if you can find a cheaper variable [loan] and it doesn't rise during the loan term, you could save more money."

SMEs find getting credit difficult without putting up a home or another asset as collateral; start-ups find it impossible. So non-traditional lending products come to the fore. "We are starting to see the emergence of alternative players like online and peer-to-peer lenders that could really shake up the sector," says Lamont.

They include Prospa, SpotCap, Moula and Kikka, all of which provide fast online SME loans, says Lamont. Moula's Dean Loudena says it uses a business's transaction and sales information to make a lending decision within the hour. "We look at whether they are a solid business, and if they are delivering good numbers," says Louden. This rules out most start-ups.

PayPal Working Capital is an option for fast short-term funding of up to $85,000. "Businesses need a minimum 12-month trading history with PayPal in order to be considered for a cash loan, so it's not an option for start-up funding," says Lamont.

Anthony O'Brien is a small business and personal finance writer with 20-plus years' experience in the communication industry.

CHEAP CREDIT CARDS

CREDIT CARD	PURCHASE RATE	ANNUAL FEE
Bank of Melbourne Business Vantage	9.99%	$55
St.George Business Vantage Visa	9.99%	$55
BankSA Low Rate Visa Bus.	9.99%	$55

Source: creditcardfinder.com.au, September 2015. Ranked by purchase rate, followed by annual fee.

TRANSACTION ACCOUNTS THAT PAY

ACCOUNT	INTEREST RATE	ONGOING FEES	ATM FEE	CONDITIONS
Bankwest High Interest Business Transaction	2.00%	$20pm	none	
Newcastle Permanent Business Cash Management	1.20%	none	50¢	$10,000+ balance for this rate
Auswide Bank Business Access	1.25%	$10pm	First 12 each month: none. Then 50¢ per transaction	$10,000+ balance for this rate

Source: finder.com.au, September 2015. Ranked by rate.

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Casual work in progress

Summer is the perfect time for kids to look for a part-time job, writes Susan Hely

A **PART-TIME JOB IS ESSENTIAL** for children, no matter how busy, bright, shy or disorganised they are. Not only does it teach them about money, it also develops a range of other attributes: skills in communication, problem solving and time management. It expands their world as they meet different people and make new friends. It can even impact the career they choose.

But finding a first job is tough because it is competitive. It is common for employers to hold recruitment sessions, where applicants are assessed as they talk about themselves and play team games.

It is always best to apply early, before a school or university breaks up. I have sent my kids off – rather reluctantly – with their résumés to the local shops. One summer holidays, one of my daughters distributed dozens of résumés and didn't get any bites. She ended up working for a neighbour, updating his website while he was on holidays, and babysitting. The next summer holiday she didn't just leave her résumé. She asked if she could work without pay. Yes, she did get ripped off by a few cafes that asked her back a number of times but she had three so-called job offers.

My family lives in an area of Sydney where there is plenty of competition from backpackers and students. Employers take advantage of eager workers and pay rates that are well below award requirements. There's no superannuation or holiday pay. It is common for kids to focus on getting the job, forgetting to ask important questions such as the pay rate. Employers sometimes take advantage of them.

Kids are so keen to get experience that they will accept jobs with unreasonable conditions. What is common – particularly in the Christmas lead-up – is working long hours without breaks and unpaid extra hours. While it may seem kids' options are limited, this sort of employment is a rip-off. Also some small businesses have cash flow problems. One of my kids waited more than six months to get paid. On the upside, it was a valuable learning experience and she won't fall for that again.

Another employer racket is putting on kids as trainees and paying them a ridiculously low wage for months. This is common in fast-food operations and "trainees" do the same work as everyone.

Kids need to know that employers must provide a statement of employment when they start work, or soon after. It is important for your kids to stand firm about issues. Employers must follow the National Employer Standards (NES) and if they don't they can be penalised up to $10,800 for an individual and $54,000 for a company.

The ideal is to get a job with an employer who pays the minimum wage, plus benefits. One of my kids landed a dream job with a family that paid award wages and super. The employer understands her study and work balance.

Once your kids have made some money, teach them to save part of it. It's a good idea for them to set aside some of their earnings for spending through the rest of the year.

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She wrote best-selling book* Women & Money.

GETTY IMAGES

GET READY FOR A JOB

- Prepare a résumé – with contact details.
- Organise a tax file number through your school, as it is so much easier than doing it on your own.
- Set up a bank account.
- Choose a highly rated, low-cost superannuation fund.
- Get good references. If you don't have a previous employer to recommend you, you can get a reference from a school teacher or family friend. Let the referees know that they may be contacted.
- Once your child is 18, encourage them to do a hospitality course with a company that can genuinely help them get a job.
- Apply online for big employers such as food and retail chains. Take your CV to local shops and cafes; face-to-face works.
- Don't forget to ask about pay rates and hours once you have been offered the job.
- If there is training, check you will be paid.
- Go to fairwork.gov.au and use the calculators to work out the award pay rates to which you are entitled. The website also explains entitlements. Or phone Fair Work on 131 394.

'Free' car has a catch

Check the details before you sign up for a replacement after an accident, writes Anne Lampe

SOMEONE HAS SMASHED INTO your car, which puts it off the road for some time. This common scenario has given car hire companies the chance to come up with a service where they provide you, the driver whose car is in the garage for repairs, with a like-for-like replacement while your damaged vehicle is off the road.

Why don't I know about this?

Like ride-sharing Uber, this is a fairly recently service introduced by some car rental companies which know how reliant we are on our wheels. These companies, whose brands include itwasntmyfault, Not At Fault, Compass Claims and Acorn Rentals, don't advertise but can be readily found online by searching for not-at-fault car rental services.

Mostly the availability of this service spreads through word of mouth. According to Compass Claims, only 6% of the population know it exists, so it's a growing market. Some firms providing free car hire to not-at-fault drivers also provide claims-handling and repair services.

What conditions apply?

The first is that you are not the at-fault driver. The at-fault driver has to admit fault and provide you with his or her contact details; you should also have the at-fault driver's number plate.

Another important condition for the car replacement service to be free for you is that the at-fault driver has accident insurance so that the rental company can claim the cost of providing you the replacement vehicle from the at-fault driver's insurance company.

The bottom line is that if there is no insurer from which the rental company can recover the car rental cost, it won't provide you with a free vehicle.

In effect, the rental car is provided to you on credit. It's called credit hire. At the end of the rental, the care hire company recovers the rental charge from the at-fault driver's insurance company.

CAR REPLACEMENT

Pros

- This looks like a good service to ask about as your car is towed to the garage for repairs. Accessing it might save you hundreds of dollars in car rental charges.

Cons

- It all hinges on the at-fault driver having accident insurance so that the rental company can claim the costs. Otherwise, you might end up footing the bill.

My call

- Before you accept a "no cost" replacement car, clarify that you meet all the conditions to ensure that you won't be handed the bill if the car replacement company can't recover the cost from an insurer. If your wheels are critical for you, it is a good idea to tick the car replacement option on your comprehensive car insurance policy so you will have a replacement vehicle no matter who is at fault in an accident. It's usually a small charge, and worth it.

This is where it can get tricky. If for some reason the car rental company can't locate the at-fault driver or his or her insurer (say, because you have been given false driver information, or the car is stolen), or the at-fault driver isn't insured you may be up for the car rental fee unless you have already ticked that option on your regular insurance policy as an extra service. Usually that involves a small additional charge on top of your insurance premium. The car hire company isn't providing a charity service. It will want to be paid by someone. And that may be you.

Furthermore, if your car is damaged in a car park or while parked in the street and the driver doesn't leave his or her contact details, the service won't provide you with a free replacement car.

It is therefore important, when you are offered the like-for-like rental car, to make sure the hire company has all the information it needs, that it has determined the at-fault driver has insurance and that his or her insurer will pay for the car hire.

Do I get a like-for-like car?

All the not-at-fault car replacement companies claim they will do their best to provide a Mercedes if your Merc has been damaged, or a station wagon if that is what is in the garage. But it isn't guaranteed.

What if I'm the at-fault driver?

The free car hire offer does not apply. You will have to pay for the hire, unless your comprehensive policy entitles you to a replacement from your own insurer.

In fact, it may be your insurance company that will be paying for the other driver's car hire while that car is off the road.

Anne Lampe has written for The Australian Financial Review *and* The Sydney Morning Herald, *winning a Walkley award in 1991.*

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STORY STEPH NASH

MONEY FOR (almost) NOTHING

Bring out your inner entrepreneur to top up your cash, whether it's from completing online surveys or selling old photographs

A LITTLE BIT OF EXTRA cash can go a long way. If you saved $50 each week, you could buy a top-of-the-line home entertainment system by the end of the year. If you saved $100 a week, you could have enough in 12 months to take your loved one to Paris. Another $50 a week on top and you could buy yourself a pre-loved jet ski for Christmas.

Saving can be hard after covering everyday expenses but, thanks to the internet, there are plenty of quick and simple ways to earn some pocket money without leaving the couch.

Passive income is traditionally derived from investments such as property, stocks and bonds. But these days you don't have to spend a mint to make a mint. It's all about sharing what you have that will be of benefit to others – whether you're renting out your stuff to others or helping marketing companies know a little bit more about you. It's not hard to make money on the side and, if you save it up, you might be able to afford that splurge item you've been thinking about.

Buy and sell a domain name

In early October, a former Google employee was surprised when he noticed that the Google domain name was available online for purchase. Sanmay Ved bought "Google.com" for only $US12 ($16.60). The transaction was denied within 60 seconds but Ved was approached by many lawyers and, if he'd been serious about making money, he could have sued the company for a huge profit. Fortunately for Google, Ved respected his old employer and didn't pursue the issue.

Domain names can be bought and sold on the internet like shares. It's something of an unknown market: if you create and register a domain name, you're banking on it being desirable to someone else. The trick is to use key words that are niche specific, such as "car" or "yoga". You can register a .com.au name through CrazyDomains for $11.49.

According to domain industry news site *DN Journal*, the second most expensive domain name of 2015 was PX.com, which sold for $US1 million on the domain brokerage site MediaOptions.com. It costs $US2.99 to register a domain name for two years with American site GoDaddy, which for the creator of PX.com could have meant a profit of over 300,000%.

Invest in peer-to-peer lending

Peer-to-peer (P2P) lending is like a real-life game of Monopoly. If you're the banker, you're responsible for lending money to other players on the board so they can buy houses and progress through the game. The banker keeps everyone in check and reaps a few royalties and taxes in return for their services. Similarly, if you invest in peer-to-peer lending, you're the bank – you lend your money to other people, in return for regular interest payments.

RateSetter.com.au is one of the most successful P2P lending platforms in the world. Since its launch in 2010, RateSetter UK has lent £815 million ($1708 million) and paid out £25 million in interest to investors. In Australia, the platform has been around for less than a year and in that time has paid out $176,000 to investors.

RateSetter allows you to set your own fixed interest rate, which you can position above or below the going market rate. For a one-year investment term, the average return is 5.4%. You can reinvest your profits or have them paid directly to your account. But be warned: P2P lending has its risks. There is no assurance that you will be fully compensated if your borrower defaults on your loan, so read the product disclosure statement thoroughly before you invest.

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You can **earn between 25¢ and $90** each time your image is downloaded

Become an online guinea pig

Love surfing the internet? User experience and marketing platforms want you. If you're not too fussed about your online privacy and are OK with corporations knowing more about you, then why not sell aspects of your soul for a bit of extra cash? There are truckloads of reliable platforms online that pay users to either browse around or fill in a couple of questionnaires.

Your typical online survey can pay anywhere between 10¢ and $150 but you'd have to set aside a lot of time to find the high-return ones. Forums such as Reddit are a great place to find niche-specific surveys – you just have to be a little creative in your research.

User experience testing is incredibly easy and can be lucrative if you find the right platform. Commonly referred to as UX in the digital world, it describes the journey of a participant as they navigate their way through a website. A good UX is important because it keeps users coming back. Easy site navigation and a clearly structured home page are just two elements of a site with good UX. User experience testing might be as simple as filling in a form or as detailed as a video submission of your online journey. UserTesting.com advertises a going rate of $10 a video, which goes directly to your PayPal account.

Rent out your car

Thank goodness for the shared economy. Sharing the assets you already own is one of the easiest ways of making money and it's a phenomenon that's revolutionising the way we do business. Many people who work in capital cities take public transport to work, usually because it's cheaper and more efficient. If your car just sits at home eight hours a day, five days a week, you may as well put that depreciating asset to good use.

CarNextdoor.com.au is an online car-sharing platform that operates around Australia. It appears to have taken off only in Sydney and Melbourne, where there are hundreds of listed vehicles for hire. If you opt in, CarNextDoor's fleet insurance policy covers your car when you or anyone else is at the wheel, including for theft and damage. You can choose between excesses of $500 or $1000 if your car is in an accident. It's not a bad perk – you could throw away your old comprehensive insurance and save a few hundred dollars a year. Rates for borrowers start at $5 an hour and $25 a day, which, if your car was available for 50% of the year, could make you upwards of $2500 after costs. Users are also charged 25¢ per kilometre to help you pay for fuel.

Sell your old snaps

We all have old snaps lying around on our phones or cameras or in a tatty album. Instead of taking up valuable storage space or collecting dust, why not let them help you fund your next holiday? Stock images are an everyday necessity for bloggers and media publications and they're fairly expensive to acquire these days. If you consider yourself a bit of an artiste and you have a few landscape or atmospheric shots on hand, you could try selling them from a stock images websites, where you earn royalties every time your image is purchased.

Shutterstock.com has a pretty impressive earnings schedule, paying between 25¢ and $90 each time your image is downloaded. It is free to contribute and you also get to keep the copyright of your work. It's not a hard way to make money – some Shutterstock contributors have made more than $10,000. So if you've got the goods, you should try selling them. ***M***

CHEAPER AND CHEERFUL

STORY EMI BERRY

There are many ways to celebrate without breaking the bank

DID YOU KNOW THE average cost of a wedding in Australia is a staggering $36,200? ASIC's MoneySmart website breaks down the cost and shows food, alcohol and venue hire is the largest expense, at $18,683, followed by clothing and accessories at $4271. Photography costs come in at $3983, then entertainment $2896, flowers and decorations $2896, the ceremony $941 and sundries such as car, hair, make-up, accommodation and stationery at $2534.

But imagine settling for, say, a $10,000 wedding bill and putting $26,000 away for a deposit on your new home or investing for several years to build an even bigger deposit.

Your big day needn't be expensive if you're willing to put in the work. Kate White, creative director of Katering and author of *The Australian Wedding Book*, has some helpful tips on how to reduce the cost of your big day.

White says there are many ways to trim your budget and a lot rests with research, planning and a bit of creative flair from the bridal couple. "Start with the ring. Look at antique jewellery – pre-loved rings have incredible craftsmanship, treasured stories and a history. They are surprisingly very affordable," she says.

As food, alcohol and venue form the largest cost, consider hiring a quaint community hall or similar. We attended a wedding recently where the bride and groom hired the gorgeous Woodville School of Arts in the Hunter Valley and asked guests to bring a plate and a rug for a garden party. Alcohol and entertainment (yes, a barn dance) were provided and it proved to be a memorable and fun event. White suggests a cocktail reception rather than a sit-down affair. "Better still, to reduce the budget, have a brunch or afternoon tea over a four-hour period – less staff costs, less alcohol and less food."

White says roasting spits are a great way to feed large numbers. She also recommends "station food", with displays that can be done in advance such as antipasti, a Greek bar and a brushcetta bar. "Have a caterer provide the savoury items and ask your guests to bring an item for the dessert kiosk or table. Alternatively, don't make a big deal about dessert and serve a slice of brownie made by grandma or a mini ice-cream bought from the supermarket. It's all in the way you serve it!"

Buy a pre-loved dress. "Look at companies like still stillwhite.com.au for a designer bargain as from time to time they have clearances. Revamp your mother's dress, perfect for that something-old element. Alternatively, have a seamstress make a design you like out of the fabric you like," suggests White.

Photography is another big cost, so why not ask friends or family to assist? "Allocate someone to do the official photographs of the family and bridal party and then either have bridesmaids or friends with Polaroid cameras assist with the guests. Hashtags are another great source to get everyone's photos of the day via social media."

Reduce the cost of entertainment by using your iPod playlist. White suggests giving a friend or family member the job of creating a playlist for all ages. "Alternatively, get a friend to DJ. A lovely idea is to ask your friends to send in a favourite song to get them on the dance floor. This also helps gather a playlist."

White also suggests buying flowers from the markets. "Just wear one flower in the bride's hair and forget about the bouquet or wear a wrist corsage made up of flowers or greenery from trees and walkways." **M**

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BACK IN FAVOUR

A-REITs cover the field

Kyle Lidbury,
head of investment research,
Perpetual Private

Given the regulatory crackdown on lending to investors, those who want exposure to property may need to explore other options, such as Australian real estate investment trusts (A-REITs). Property is a great asset for long-term portfolios. A real asset, producing rental income, is a fantastic hedge against inflation. But liquidity and transaction costs are big issues for direct property investors, as well as the ability to achieve a suitable level of diversification in the asset class.

A-REITs can be a good alternative to address some of these issues. As listed securities, they enjoy all the advantages of equities, including the ability to trade whenever the market is open with relatively low transaction costs. A-REITs can provide access to different classes of real estate, such as commercial, retail and industrial, and real estate in other countries, achieving a level of diversification impossible for individual direct investors.

Ironically, some advantages of A-REITs, such as liquidity and transparency of current value through daily market price changes, make some investors consider them "more risky" than direct property.

The huge losses for some A-REITs during the GFC are still fresh in some investors' minds. However, since then A-REITs have recapitalised and are borrowing at much more conservative levels.

While they may not be as tangible as the great Australian dream of home ownership, returns of more than 20% during the past 12 months show A-REITs are performing well and providing diversity and liquidity.

Where I'd invest $5000

Justine Davies,
Canstar

Any spare $5000 would go straight into my mortgage. At an interest rate of 4.8% tax-free and capital-guaranteed, it's a better "return" than many other investments. An extra $5000 paid as a lump sum into a $300,000 home loan could cut around nine months off a 25-year term and save around $16,000 in interest costs. So it's a strategy that could triple my initial investment, risk-free, over 25 years.

FACT FILE

	DO NOTHING	LUMP SUM
Mortgage	$300,000	$295,000
Monthly repayment @4.8%pa	$1719	$1719
Total repaid over life of loan	$515,695	$499,413
Saving		$16,282

Based on a 25-year home loan at 4.8%. The monthly repayment stays the same for the saving to be made.

If I were already mortgage free, I'd take the next most tax-effective route of salary sacrificing into my super and invest in Australian shares, for the franking credits.

Sea change pushes up prices

For property price growth outside the big cities, statistics suggest that coastal areas are set to boom. Western regions, on the other hand, appear to be languishing, due to the mining industry's woes.

CoreLogic Data shows that the outer-metropolitan areas of NSW and Victoria have experienced strong growth, with the Illawarra in NSW and the Western District in Victoria both surging by 12.2% in the past year. In NSW, the Hunter and Great Lakes regions experienced price increases between 5.7% and 8.8%, reflecting the sea change pattern. In Victoria, the Wimmera mining region had the biggest price fall, down 7.4%. Mining territory also suffered in Queensland, where Mackay and Gladstone prices fell 9.5% and 10.2% respectively. The strongest growth area in Queensland was the Gold Coast, up 7.1%.

Western Australia was by far the state worst affected by the end of the mining boom: prices in the Pilbara region were down 23.7%. High unemployment there is likely to be driving growth in other areas. STEPH NASH

HIGH-GROWTH COASTAL

REGION	MEDIAN PRICE	5YR GROWTH	WEEKLY RENT
Illawarra, NSW	$538,000	27.4%pa	$473
Western District VIC	$226,000	7.6%pa	$259
Gold Coast QLD	$607,000	3.1%pa	$511
South-East SA	$367,000	6.6%pa	$371
South-West WA	$409,000	8.3%pa	$365

Source: Propell National Valuers, as at 30-Sep-15

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INSIDE PROPERTY THIS MONTH

Lure of a big profit

For home owners who play the development game, the risks may also be 'high rise', warns Pam Walkley

NEIGHBOURS ARE GETTING together to sell their homes as development sites – potentially doubling, or more, the value. It highlights the drive to make big profits from property. The nine owners of cottages on Holdsworth and Canberra avenues in Sydney's St Leonards, who recently sold their properties for a total of $66 million, five times their homes' value, were acting like developers by amalgamating a site.

This trend is taking off but opportunities are limited. Some will prosper but some will be disappointed. For example, some owners in Sydney's north-west Hills district, who expected extensive areas to be rezoned as high rise, had a setback when the council restricted the rezoning to council-owned land in its draft plans.

But at least the Hills owners will not lose everything if they are thwarted. That has not been the case for some who have tried to get a cut of developer profits through unlisted managed schemes. Remember Westpoint? It promised investors who provided mezzanine finance for property developments a guaranteed 12% and was heavily promoted by financial planners, who pocketed very high commissions. Westpoint collapsed in 2006 owing about $380 million to around 4000 investors.

Managed schemes are still around, although they are mainly aimed at self-managed super funds (SMSFs) and "sophisticated" investors (an annual salary of $250,000 or a net worth of $2.5 million).

For example, HCAP Asset Management (hcap.com.au), which has an Australian financial services licence (AFSL), has launched seven single-asset trusts for residential developments in Brisbane and Sydney in the past four years. Three have been completed, providing returns of around 15%pa (all beat their targeted returns). Its latest, the Newstead Single Asset Trust, which is developing a 25-level apartment and retail building in inner Brisbane, was open at the time of writing. Investors will need a minimum $100,000 to invest in the trust, scheduled to complete in 23 months. The targeted annual return is 14%, after fees totalling 3%.

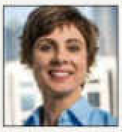
Secured Investments Australia (SIA) also aims for developer-like profits. It is structured so the trusts it offers don't need to be registered with the Australian Securities and Investments Commission (ASIC). SIA's trusts will not accept investments from more than 20 people. Its focus on SMSFs is highlighted on its website (secured investments.com.au), which shows projected returns considerably higher than those of top super funds. But, given property development is much more risky than investing in a diversified super fund, this comparison would appear invalid.

SIA offers investors 18%pa returns for the duration of each scheme and says it "will distribute this percentage regardless of the investment outcome", according to an example of an information memorandum sent to *Money*.

It's understandable investors want some the big bucks that successful developers make. But remember high returns bring high risks. There is a difference between taking calculated risks with part of your portfolio and blowing it all in one scheme, as many Westpoint investors did.

Anyone considering investing in a managed scheme should do their due diligence. Don't fall for slick websites or promises made by people who don't have easily verifiable credentials. And if you don't understand exactly how an investment works, including the risks, seek professional advice. Remember, if it looks too good to be true, it usually is.

READ THE FINE PRINT



In an attempt to stay ahead of further changes to bank lending policy and to be able to act quickly, investors are seeking pre-approval for investment loans. But it's important to understand that pre-approval doesn't always mean a loan is guaranteed.

Understand the fine print and try to restrict the number of conditions attached to your pre-approval. Just one condition – suitable property – is the ideal situation.

If you use the services of a broker, make sure they submit a formal application with the lender and are not just assuming you'll be approved, based on general inquiries. Importantly, choose a lender that won't penalise you for having an existing property portfolio and won't laden your pre-approval contract with pages of conditions that render it worthless.

Pre-approval is a smart move – but only if you've read the fine print.

HEIDI ARMSTRONG, HEAD OF CONSUMER ADVOCACY, LIBERTY FINANCIAL

Money *founding editor and former* AFR *property editor, Pam Walkley, has hands-on experience of buying, building, renovating, subdividing and selling property.*

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BUILD WEALTH

STORY PAM WALKLEY

The equity in your home can be tapped to kickstart an investment portfolio

THE MAIN PURPOSE of the family home is to provide shelter. But it can do much more. Once you have built up some equity in your home you can use it to kickstart an investment portfolio to build wealth. Of course, this strategy isn't for everyone because it involves some risks. In fact, ASIC's MoneySmart website advises against it, saying if the investment turns bad and you can't keep up with your loan repayments, you could lose your home.

"Some folks just cannot mentally allow themselves to use the equity in the family home because of the traditional values that property holds for them. But for many it is the only equity they have to use to invest in other asset classes, whether it be shares, funds or indeed property," says Lisa Montgomery, a mortgage and consumer finance specialist.

And there are precautions you can take to mitigate the risks. The first rule is to separate your mortgage loan, on which tax is not deductible, from any other loans where the interest may be claimed as a tax deduction, Montgomery says. "It's easier for accounting purposes and also easier to identify the non-tax-deductible loan that you may want to reduce more quickly."

Indeed, a side benefit of using your home equity to invest is that you can swap non-tax-deductible debt (your home loan) for deductible debt (the investment loan). This means you may be able to pay off your home more quickly – but it does require you to be willing to live with debt, so is not suitable for everyone. (See *Recycling bad debt for good*, opposite.)

A big advantage of borrowing against the equity in your home to invest is it enables you to start your portfolio much sooner than if you had to save your investment nest egg.

The equity in your home will increase, both as you pay off the mortgage and its value increases. So if a $500,000 property increases in value by 5% over 12 months, you have an extra $25,000 in equity. And on top of this you add any reduction of your mortgage over the 12 months to get total equity growth.

BOOST YOUR RETIREMENT LIFESTYLE

Having a fully paid off home gives you choices about how to pay for your retirement dreams. If travel is on the wish list, you could downsize from a house to an apartment, which is easier to lock up and leave.

And with good planning, such as moving from an inner-city area to a suburb further out or to a regional centre, you will pocket extra funds. Beware how any extra money will affect the entitlements of those on a part or full age pension. Further down the track, this may not be necessary as there are policy discussions around schemes allowing older Australians to downsize without the extra funds generated being included in means tests for the pension.

Home-owning retirees who want to stay in their homes but could do with some extra cash can make use of a reverse mortgage or a home reversion scheme to release some funds. Of course, you must proceed with caution. The MoneySmart website (moneysmart.com.au) has a good guide to these schemes, including their pitfalls.

GETTY IMAGES

To work out how much equity you have, subtract any debt remaining on your mortgage from your home's value. Of course, your lender has to agree with your calculation and is likely to require a formal valuation. One precaution you should take is to limit your total borrowing to a maximum of 80% of the home's value (80% LVR), Montgomery says. This is especially so if your home is in a market subject to volatility.

This means, for example, if your home is valued at $500,000 you don't have more than $400,000 in loans secured against it, including your mortgage and any other loans.

When deciding how much of your usable equity to invest, you should also consider what else you may need some of the equity for, Montgomery says. This could include improvements to your home, buying household goods or a car or maybe to supplement a loss or reduction of income, such as in retirement. (See *Boost your retirement lifestyle*, opposite.) "These considerations will ensure that you are managing your risk," Montgomery says.

You can borrow against your home to invest in property. Some great strategies for using your home equity to invest in property are included in *Money*'s 2015 August cover story.

If you prefer to use the funds to diversify into equities or commercial property there are lots of options.

Power of dividends

Given our low interest rates, investors who stick to buying stocks in companies paying good dividends could well find that the interest on borrowings is covered by the dividends. For example, the dividend yields of the four big banks are now around 5.6% to 6.3%, and when grossed up to take account of franking credits are between 8% and 9%, considerably higher than borrowing rates.

If you don't feel equipped to choose your own stocks, you can look at listed investment companies (LICs) or exchange traded funds (ETFs). These allow you to buy a portfolio in one hit for as little as $500 (the minimum parcel on the ASX). And if you buy several you can achieve a lot of diversification. You can find a full list of LICs and ETFs at asx.com.au.

The variety of ETFs, in particular, is growing quickly, and you can invest in quite specific sectors and markets, including offshore, fixed income and real estate. For example, Vanguard, a major ETF and fund manager, shows how investors can build diversified portfolios by mainly using Vanguard ETFs. There are model portfolios for conservative, balanced, growth and high-growth options. (Search on the internet for "Vanguard ETF portfolio strategies" and see also *Spoilt for choice*, page 67.)

RECYCLING BAD DEBT FOR GOOD

To benefit from a debt recycling strategy you need to have regular surplus income that is sufficient to cover the interest payments on your investment loan. Here's how it works:

- Use the equity in your property for an investment-purpose loan.
- Use the borrowed money to invest in an income-producing asset such as property, funds or shares.
- Use the income generated, plus any tax advantages of geared investments, to pay off your home loan faster.
- Increase your investment-purpose loan by the same amount you have paid off your home loan and reinvest the increased amount.
- Repeat the process each year until your deductible loan entirely replaces your non-deductible loan.

Unlisted route

If you would prefer to have at least some of your portfolio not affected by the volatility of sharemarkets, then managed funds and unlisted property trusts and syndicates are worth investigating. Research house Morningstar has a full list of managed funds (see morningstar.com.au). And for those looking for new unlisted investments, Property Investment Research is a good place to start (see pir.com.au).

How to get the money

Many home owners using the equity in their home to invest in shares or funds would generally set up a line of credit. This keeps the loan completely separate from the main home loan.

If you are going to borrow against your home for investment or other purposes, such as home renovations, make sure you have separate lines of credit for each. This is because the interest on the one used for investing will be tax deductible.

If, for example, you have $100,000 equity you can withdraw without breaching the 80% LVR on your mortgage, you may decide to set up an investing line of credit with $60,000, leaving you with a buffer should you want to borrow for other purposes. **M**

TENANT'S survival guide

STORY STEPH NASH

First-time renters should follow these nine rules of thumb to stay on top of the costs and out of trouble

THE "GREAT AUSSIE dream" is like a sepia-tinted photo in an old album for many of us. Housing affordability is at crisis level in some cities and the nature of employment in many industries is changing (or disappearing altogether), so owning a home is becoming an increasingly distant possibility for some Australians.

Whether you're 20 years old and about to fly the coop, or 50 and newly single, renting is a lifestyle choice that can end in tears if you don't understand your legal obligations. Our guide explains how to avoid some of the traps and make the experience more enjoyable:

1 ALWAYS NOTIFY THE LANDLORD IF REPAIRS ARE NEEDED

There's a good chance that the property you want to rent is older than you and needs a few repairs. NSW Tenancy Union advocacy research officer Leo Patterson Ross says scratches on the walls and a few chipped tiles probably won't be too urgent a fix. But if you notice anything suspicious and risky, it's best to tell your landlord as soon as possible.

"The way the law is written, the landlord doesn't have to do anything about a repair they don't know about, and they can't be held responsible," says Patterson Ross. "While it can be difficult convincing landlords to do repairs, you won't get anywhere without telling them about it. It's actually a breach of your tenancy agreement if you don't tell them about a repair that's necessary."

A small puddle of water in your kitchen might seem a minor problem but, if your apartment

is not on the ground floor, that puddle could be a sign of a bigger problem that weakens the building structure over time and eventually causes significant damage, even affecting other apartments.

2 BE ACCURATE WITH THE CONDITION REPORT

At the start of your tenancy, your agent will ask you to fill out a condition report, detailing the state of the property room by room. If you've never done it before, you may feel awkward about it. What's necessary to document? Is there such thing as too much information? The answer is "no". It's vital that you document everything that you think you could be made liable for at the end of your lease.

"When people are filling out the condition report, it's really important that they are accurate. Some people feel like they are being too nitpicky, or they're picking up on things that aren't really that important. And sometimes there's pressure by the real estate agent to not go into too much detail," says Patterson Ross. "But the problem is, if you're not really accurate at the beginning and the landlord is really accurate at the end, then you can be held responsible for something you didn't cause, and you could've proven it easily by writing it on the condition report."

If you find your property has some damage sneakily tucked away, it's a good idea to take photos to protect yourself. That said, bond money will always be your property, so it's up to the landlord to prove that they deserve a payout from you.

3 PAY THE RIGHT AMOUNT FOR THE SECURITY DEPOSIT

The tenancy bond varies between states – in NSW, for example, it must not be any more than four weeks' rent – but in all cases you are required to lodge only one security payment on the property. "There's a concept called a key deposit, which is technically a charge for the actual keys – it is not illegal as such but it is counted as [part of] the bond. So if you are being asked for multiple things that are really all about protecting the landlord from a potential breach, then that's a bond," says Patterson Ross. Your agent might test you to see how much they can get away with, so don't give them the opportunity to make you pay more than you should.

4 DON'T END UP ON AN AGENT'S BLACKLIST

The transition between the end of an old tenancy and the start of a new one can be financially awkward. In NSW you have to give your landlord two weeks' notice before ceasing rent payments. You can have the payment of a new bond hanging over your head while the bond from the property you're leaving is tied up until your landlord's inspection. (And you'll only get it all back if you've left the place in near-mint condition.) It's a tough time for renters but if you try to take a shortcut, it could turn around to bite you.

"Sometimes people think about using the bond to cover their last few weeks of rent when they're about to move, and you can see why," says Patterson Ross. "You don't often get your bond back until you've already moved. So in order to get the bond for the next place ready, you hold back a few weeks' rent and then move on. But the problem is that if you do get a bond claim against you, and you've already used up your bond on three or four weeks' rent, that can take you out of bond claim and into compensation. And when you leave a place owing more than the bond is worth, that can get you listed on a tenancy database and that can ruin your renting chances anywhere."

A tenancy database is a list of bad tenants that circulates among agents and landlords. Don't get yourself blacklisted and do have a look at the tips on budgeting for renters (above).

5 AVOID TAKING OUT A LOAN TO COVER THE BOND

If you can't afford to pay your new bond, avoid taking out a loan with a financial institution that you don't recognise. It might sound as if such a loan will solve all your problems but the NSW Tenancy Union says it receives regular complaints from tenants who have been ripped off by dodgy companies.

"Companies who advertise for bond loans are essentially loan sharking," says Patterson Ross. "They often advertise as having 0% interest if you pay it off within less than a year but the charges on the account usually end up being at a comparative rate of about 800%. So it's not quite true to say that they are interest free."

Ye olde rule applies: if it sounds too good to be true, it probably is. If you need help

BUDGETING CHECKLIST

Renters pay more in weekly housing costs (26% of their expenditure) than home owners with a mortgage (about 20%). The Australian Bureau of Statistics (ABS) reports that renter households make roughly $1522 a week (2011-12 figures) on average and spend most of that on rent, food, public transport and recreation. It's important to have a budget and also set aside money for future costs, such as an urgent late-night repair, electricity bills, furniture and insurance payments.

Average renter weekly expenses on an income of $1522

- Rent $306
- Tax $226
- Groceries $182
- Public transport $173
- Recreation $137
- Household services &operation $59
- Household furnishings & equipment $43
- Medical & health expenses $42
- Clothing & footwear $39
- Alcohol $37
- Super & insurance $31
- Fuel & electricity $27

Expenses as a proportion of income

- Rent 25.6%
- Fuel & electricity 2.3%
- Food 15.3%
- Clothing &footwear 3.3%
- Household furnishings & equipment 3.6%
- Household services & operation 4.9%
- Medical & health expenses 3.5%
- Recreation 11.5%

Source: ABS household expenditure survey, 2011-12, private landlords; in the survey, the average renter household size was 2½ people.

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paying your bond, you could instead take out a personal loan . Check a comparison website such as Canstar or Finder for the best deals.

6 CHECK THE WATER EFFICIENCY IF YOU FOOT THE BILLS

You only have to pay water rates if your landlord has installed the correct water-saving taps and shower heads. Water-efficient devices don't come with any type of official certification, so if you're unsure, you'll have to measure the flow rate yourself.

"You can only be charged for water if the property has been made efficient. In the NSW context, that means all shower heads, mixer taps and internal cold taps are a 9 litres per minute flow rate, which is a standard thing," says Patterson Ross.

If you're paying water rates for your property, grab a bucket and a stopwatch and see how much water you can collect in a minute. If it's more than 9L, take the issue to your agent. And if that doesn't work out, you can go to the tenancy tribunal.

7 BE A SOLAR SCEPTIC OR YOU COULD GET BURNT

Solar panels on the roof may initially make you jump for joy at the savings prospects but the Tenancy Union says it has had more complaints than compliments when it comes to investment properties and solar arrangements.

"Sometimes if there's a property with solar panels, the landlord keeps the electricity account in their own name so they can continue to get all the government rebates," says Patterson Ross. "With the way tenancy law is written, the tenant in that house would pay all the charges and the landlord would keep all the government rebates. That's fine if that's what you understood was going to happen when you moved in, but often people see a solar panel and think, 'Great, I'm going to have small electricity bills' – and that's not necessarily the case."

The best advice when it comes to solar panels is to have an upfront conversation with the agent before you sign. That way you know exactly what you're getting into before you commit. Solar schemes work in many ways: your landlord could have purchased the

system upfront or could be on a payment plan with their solar provider. Either way, know exactly what you're paying for if you decide to take the tenancy – or you could pay more than you need to.

8 KNOW THE TYPE OF TENANCY THAT SUITS YOU

There are three types of tenant arrangements: co-tenants, head tenants and subtenants. Co-tenants are on the lease together as equals and both are legally obligated to follow the terms of the lease. If a property is leased to one tenant only, that tenant can then request permission from the landlord to sublet the apartment to another person. The landlord can say yes or no but they can only say no within reason.

If the person you're bringing in is someone with whom you have good rapport, you can make an agreement with the landlord to bring them in as a co-tenant. But if you don't know them well, the landlord may insist that you go on contract as the head tenant and the other person as a subtenant. Being a head tenant is a huge responsibility, so only take on the risk if you're positive your subtenant will be a good housemate.

"If the subtenant stops paying rent or runs off or starts causing damage to the property, that's your responsibility as the head tenant. You don't get to say to the owner, 'I didn't cause that damage.' The subtenant is responsible to you for that damage but you're responsible to the landlord," says Patterson Ross.

Your contractual arrangement may not be clearly explained by the agent, so make sure you know exactly what your legal obligations are before you seek permission to sublet. If you're not comfortable being head tenant, ask your landlord to change the contract.

9 MAKE SURE THE NAMES ARE ON THE CONTRACT

Share houses are a great way to meet new people and they can also be much cheaper than taking on a lease by yourself. But beware the difference between a share house and an illegal boarding house. If you live with sub-tenants whose names aren't on the contract, you might unknowingly burden yourself with financial responsibilities.

"The person who is moving in as a subtenant needs to be given a written agreement if they are to be covered by tenancy law. If there is no written agreement, by the way the law is written you're not covered," says Patterson Ross. "That's a bad thing even for the head tenant, because it means you don't have the same access to remedies around getting the rent out of them if there's rent arrears or if you're chasing some damages." *M*

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+

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Our go-to finance expert. She's the editor of *Money* magazine and will share a wealth of information on what the tax implications on your renovation could be

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Useful numbers and websites

Australian Communications & Media Authority
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www.acma.gov.au

Australian Competition and Consumer Commission
1300 302 502
www.accc.gov.au

Australian Securities and Investments Commission (ASIC)
Local call: 1300 300 630
www.asic.gov.au

Australian Securities Exchange
131 279
www.asx.com.au

ASFA
1800 812 798 (outside Sydney)
9264 9300 (Sydney)
www.superannuation.asn.au

CPA Australia
Listing of accountants
1300 737 373
www.cpaaustralia.com.au

Credit & Insurance Ombudsman Service
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www.cio.org.au

Do Not Call Register
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www.dnb.com.au

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NSW 133 220
NT 1800 019 319
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TAS 1300 654 499
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Financial Counsellors
1800 007 007
www.financialcounsellingaustralia.org.au

Financial Ombudsman Service
Financial disputes
free call: 1300 780 808
www.fos.org.au

Financial Planning Association
Listing of financial advisers
Call: 1300 626 393
www.fpa.asn.au

Human Services
Formerly Centrelink
Families: 136 150
Pension advice: 132 300
www.humanservices.gov.au

Legal Aid advice (free)
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NT 1800 019 343
NSW 1300 888 529
QLD 1300 651 188
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TAS 1300 366 611
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www.australia.gov.au/content/seniors-card

Superannuation Complaints Tribunal
Super complaints
1300 884 114
www.sct.gov.au

Super Seeker
Track down lost super
132 865
www.ato.gov.au/superseeker

Tax Office Super infoline
Call: 131 020
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Telecommunications Ombudsman
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TAKE CHARGE

What can I do to prevent my lost super from being rolled over to the ATO?

Kirby Rappell
research manager
SuperRatings

This is a very simple question but one that can sometimes have a pretty complex answer.

First, have you logged on to your super account recently? If not, now is the time to register for online access to your primary account. While you are at it, why not visit the tax office's SuperSeeker website. Here you can search for your lost super in less than a minute but make sure you have your tax file number handy. It will let you see any lost super accounts you have. Some super fund websites offer a search facility and the myGov website can also be used for a lost super search.

Once you have found all your accounts, it pays to do some research to figure out which one you want to use. There are many sites that can help you research super funds, such as www.supersavvy.com.au. You may also wish to seek some financial advice in order to understand which fund may best meet your needs. Once you have made a decision, you will need to organise the transfer of other accounts into this fund.

If this all feels like hard work, never fear! It is now far easier to consolidate all your lost super into one fund and, in most instances, it can all be done online through your fund's website.

Once you have consolidated all your accounts into one, you won't be paying multiple sets of account fees and you won't have any lost super to be rolled over to the ATO. From here, keeping control of your super will be as easy as checking your bank account.

Keep an eye on emerging markets

Many investors are going global in search of better returns. Saxo Capital Markets says emerging markets (EMs) present an interesting opportunity. High debt, a volatile US dollar and poor commodity prices have provided a "perfect storm" for EMs and Saxo believes that they have underperformed since 2011 and are undervalued, although there is probably more downside to come.

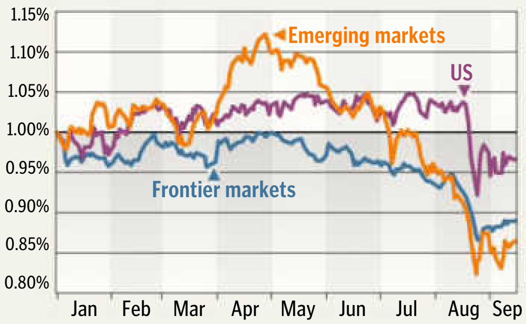
Saxo says the best way to take advantage of this opportunity is through foreign exchange trades, rather than equity investment. It favours prospects for India, the Philippines and Mexico. Look for:

Commodities: The prosperity of an emerging market often depends on raw material exports. Commodity prices stabilised in September after steep falls in the past few years and, if supply decreases, Saxo believes prices will start to recover.

Currencies: Data shows that 80% of all returns in EMs come from forex trading. Saxo believes the decision to keep US rates on hold in September indicates that some currencies may stay stronger for longer. Saxo's forex tips for the fourth quarter include Russia, Brazil, Turkey and South Africa at the riskier end and Poland and Mexico for the more conservative .

Global equities: Saxo says that, unlike frontier markets, EMs are evolving from pure export-driven and commodity producers into more balanced economies and more growth is coming from domestic consumption. However, a US rate rise could cause currencies to fall further against the $US and delay this growth. STEPH NASH

Global equity markets, performance 2015



SOURCE: BLOOMBERG, SAXO BANK

INSIDE INVESTING THIS MONTH

Use the tax-system tricks

Tax-deductible debt is the secret to smart investing, writes Ross Greenwood

IT HAPPENS SO OFTEN THERE MUST BE a pattern. A young person – usually a woman in their late 20s or early 30s, either expecting a child or with a young family already – says: "We're thinking about buying a new house."

My response: "That's great news."

"We think we need somewhere bigger for the family to grow up."

"Of course," I say.

"But I wanted to ask you, how can we structure it so we can hang on to our apartment?"

"Why do you want to do that?" is my standard response.

"Well, it's such a good apartment and we would really like to hang on to it as well. We really love it."

And here's where my furrowed brow starts to worry them.

"Why would you want to do that?" for the second time.

Now it's their turn to look a little frustrated with my lack of instant approval. "Well, we have plenty of equity in the apartment, and we can rent it out so it doesn't really cost us anything – and we can borrow against the apartment to buy a house."

And this is where the lecture starts.

If the couple try to hang on to the apartment, in most situations (not all, granted) it will create a situation where tax is working against their savings and the double gearing will add risk to their strategy in the event of unemployment or (god forbid) separation.

Let's go back to basics. Interest on a family home is non-tax deductible. So that mortgage repayment has to be found from after-tax wages. No deductions.

Interest on investments (property, shares or business) is tax deductible. So if you earn more than $180,000 a year you get a 47% tax deduction on the interest (and less Medicare levy and budget repair levy). Effectively the 4.5% will cost you 2.3% after tax. If you earn more than $80,000 a year it is 37% tax (plus Medicare levy of 2%),

so the loan will cost you 2.75%. Note the after-tax cost is higher for the lower income earner because their tax rate (and tax refund) is lower.

So it is instantly obvious that having a loan that is against an investment is significantly more beneficial than a loan against a family home.

Now go back to the question. If a couple hang on to their current apartment, which they live in, and turn it into an investment then, yes, the interest will become tax deductible and will offset any rental income they receive.

But how do they pay for the new house? The tax office rules are quite specific that once you pay off an investment loan you are not allowed to reborrow and claim a tax deduction. So ripping the equity out of the apartment and replacing it with debt is not on – not if the tax office cottons on.

With the family home, the offset of the lack of tax deductibility of the interest is its exemption from capital gains tax.

Take the example of a family with an apartment worth $600,000. Say they have been fortunate and they have 40% equity in it – so $240,000. The interest on the remaining $360,000 debt, at 4.5%, equals $16,200. If they hold on to the property and it delivers a yield of 4%, the income will be $24,000. So they make a profit – give or take – of $7800, which they add to their wages and pay tax at 37% (plus 2% Medicare). So they end up with $4760.

Looks good so far. But let's say they want to buy a new house for $800,000. If a lender is prepared to take on the deal, the interest will be $36,000. But they have the after-tax rent from their existing property, so they pay a net $31,240 interest. For simplicity I haven't included principal repayments here.

Now let's take the alternative option. Sell the apartment, realise the gain and put it towards the new property. Their debt will be just $560,000. The interest payments on that will be $25,200 and the family cash flow will be better off by $6000pa after tax, which they can put towards the mortgage, their lifestyle or investments.

It's safe, I know. An aggressive investor will say that $6000 is just 1% of the apartment's value. If it increases by that amount each year the strategy of holding the two properties pays off. The bigger problem for most young couples is coming up with the extra $6000 ($115 a week after tax) to keep the strategy afloat and the kids in food and clothes.

As clever investment types told me years ago, one of the tricks of our tax system is to pay down your home mortgage and borrow against your equity in it for investment purposes. This immediately turns a non-tax-deductible debt into one where the interest on it is tax-deductible.

That's the secret but there is one difficulty: finding the cash to pay down the mortgage – even for a day – and having the investments ready to go.

Ross Greenwood is Channel 9's finance editor and Radio 2GB's Money News host.

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Cash calms the nerves

In a turbulent sharemarket, you don't want to be a forced seller, writes Vita Palestrant

THE SAVAGE AND UNPREDICTABLE nature of the sharemarket's gyrations has been disconcerting for SMSF retirees. It underlines the importance of holding sufficient cash to see you through even the most prolonged period of turbulence.

Integral Private Wealth principal adviser David Simon says volatility is part and parcel of investing and you should have cash for at least two years set aside.

"You need to ensure that you can withstand volatility without having to sell shares prematurely in order to fund pension income or other requirements," he says. "You may also want to take advantage of markets like this."

He says an extra three years of fixed interest investments would be ideal. "History tells us that a downturn in the sharemarket can last up to five years and in rare circumstances seven years. So if you've got five years of cash and fixed interest as an ongoing discipline, you are almost assured to withstand even the worst of markets.

"If you are in an environment where markets are tremendously distressed, then you could also use some of that cash or fixed interest to purchase assets while they are cheap. So it's not just making sure you are making provisions for income and lump sums and to withstand volatility. It's also there to take advantage of markets if they become distressed."

He doubts the uncertainty spooking markets will "end abruptly", given global headwinds: China's economy slowing more than expected, the US delaying its interest rate rise, Greece's debt and geopolitical uncertainty. This is where a disciplined approach to investing counts.

"Some investors really love this environment," says Simon. "They see it as a great opportunity to buy quality companies with great cash flow and low debt that are being pulled down by the rest of the market. For them, it's like the Boxing Day sales. Other investors will panic because they don't have the tolerance for volatility and look at it as a grave risk. But the experienced investor will be cruising through this environment."

He says SMSF trustees should rebalance their portfolio to bring their asset allocation back into line as well as review their individual assets. "I'm not a believer in being a spectator. It's a cop-out to say 'just ride it out it will be fine'. You could be doing that with an asset that is doomed, that doesn't have the capacity to recover. Is it underperforming, or is it distressed because the overall market is down? Is it still a good company that is going to make money? Don't just take for granted what you are holding.

"You should have an ongoing review – even more so now; not just with individual companies but sectors and regions as well. Is Asia still the place to invest? Is Europe about to turn around? You need to be vigilant, not just due to the current market but on an ongoing basis."

Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*

STICK WITH YOUR WRITTEN STRATEGY

The market volatility of the past few months has highlighted the critical importance of a written investment strategy for SMSF trustees – and that they stick to it.

Graeme Colley, director of technical and professional standards at the SMSF Association, says when markets fluctuate to the degree they have, rattling investors, a written, long-term investment strategy not only gives trustees peace of mind but it should also remind them that super is all about the long term.

"It provides them with an important reference point at the very time when people are liable to panic because the markets, especially the equity markets, are falling sharply. When you consider an SMSF fund has, on average, about one-third of its assets in Australian shares, the reassurance the investment strategy provides cannot be underestimated."

According to the latest *Intimate with Self-Managed Superannuation* report, just over 50% of trustees claim to have a written investment strategy and another 30% entrust their adviser with this responsibility.

"Whether trustees take personal responsibility for this document – a legal requirement under the Superannuation Industry (Supervision) Act 1993 – or hand the responsibility to their adviser, it's encouraging that about 80% of SMSFs realise its importance.

"What's concerning is that there are about one in five trustees who don't have a written strategy and it's likely they will be more prone to making poor decisions, especially when markets are volatile.

"As the report says, 'these trustees could be exposing themselves to investment and legal risks by not having an investment strategy or by only having it memorised and not written down'," Colley says.

CHRISTOPHER NIELSEN

Make an extra $300,000

A transition to retirement pension has big benefits, writes Sam Henderson

PUT RULES TO WORK

	NOW	TRANSITION TO RETIREMENT
Gross income	$75,000	$75,000
Superannuation guarantee	$7125	$7125
Salary sacrifice	none	$27,875
Taxable income	$75,000	$47,125
Income tax payable[1]	$16,000	$6863
Net income	$59,000	$40,262
Super contrib tax	$1069	$5250
Total tax payable	$17,069	$12,113
Tax savings		$4956
Extra super contribs, 9 years		$250,875
Tax savings, 9 years		$44,604

[1]Source ATO simple tax calculator www.ato.gov.au

HOW WOULD YOU LIKE AN EXTRA $300,000 over nine years in your super fund without too much effort? On my TV show a few weeks ago, Adam Gee from SuperRatings suggested that only 5% to 7% of those eligible for a transition-to-retirement (TTR) pension have one. I was astounded!

My anecdotal evidence from the self-managed super fund (SMSF) industry, seminars and prospective clients suggests that figure is about 20%-30% of pre-retirees, so to hear it was just 5%-7% of retail, industry and corporate funds clearly illustrates just how many billions of dollars pre-retirees forgo just by not understanding this massive super opportunity.

If you're 56-64 and still working, you are likely to be eligible to commence a TTR income stream from your super fund that could add an additional $150,000 to $1.3 million-plus over nine years to your retirement savings depending upon your earnings, super contributions capability and existing balance. Those with defined benefit retirement accounts may be excluded and SMSF trustees need to have updated trust deeds to allow for a TTR.

So here's how it works. A TTR income stream allows you to put your super into two silos. Silo one is a pension income stream and silo two remains in "accumulation" mode. The investments can remain the same and the fees will be similar, although pensions may attract a slightly, immaterially higher, fee. You don't have to have all your funds in the TTR income stream – but it makes more sense to have as much as possible in pension mode due to the attractive tax concessions.

A TTR allows you to draw tax-effective money from your super account while still making tax-effective contributions. It's a bit like recycling your money. What's the point, I hear you ask? With your normally earned income you'll probably be paying 19%, to 47% tax and you can put up to $35,000 into super via a salary sacrifice arrangement and reduce that tax to just 15% (30% if you earn over $300,000). For example, if I earn $75,000 a year, I will pay about $16,000pa in tax and receive $7125pa in super contributions. If I salary sacrifice $27,825 to my super fund, my taxable income then becomes $47,175 and my tax payable $6878. I'll save around $5000pa. I'll also have less cash flow but that can be subsidised by the new income stream.

The cash flow difference can be made up by the TTR and needs to be determined by your cash flow requirements and your living expenses. Seek advice on this if you're in doubt. A high-income couple (each earning $250,000pa), with 7% investment returns and maximum concessional ($35,000 each) and non-concessional ($180,000 each) super contributions, could actually add more than $5 million to their super fund in just nine years.

Here's the kicker. The money you draw out of super is also concessionally taxed. If you are over 60, there's actually no tax. If you're under 60, you will need to include your TTR income stream in your tax return; however, you will also be eligible for a 15% rebate on that tax, reducing or negating your tax liability. This may reduce the tax savings benefit illustrated above.

Here's yet another massive kicker. Funds held inside the TTR pension will also avoid the usual 15% earnings tax and there is no capital gains tax. This will instantly boost your investment returns because of lower taxes. So you save tax and boost your super.

You need to be 56 to 64 and still working. The current super preservation age is 56. If you're over 56 and retired, you will be eligible for a full account-based pension that has no maximum withdrawal level. You have to draw at least 4% of your balance each year and you may draw up to 10%. You can take your income whenever you like but it must be at least annually.

Don't need the income? Consider these ancillary benefits of a TTR income:

- Rebalance your and your partner's super balances – make withdrawals and immediately put them back into your partner's account to reduce future "death taxes" by making the contributions tax free (non-concessional contributions).
- Pay your mortgage with a TTR. Use the regular payments to reduce your debt as you head towards to retirement and save tax at the same time.
- You'll pay no capital gains tax or earnings tax and so earn better net returns.

Talk to your fund, talk to your adviser, talk to your employer or talk to your accountant and set up a TTR.

Sam Henderson is CEO and senior financial adviser at Henderson Maxwell. He hosts Sky Business's Your Money Your Call – Retirement *and has written three best-sellers.*

Low-cost, automated advisers are cashing in on investors' disenchantment with the big players

STORY VITA PALESTRANT

Rise of the ROBOTS

THEY FLY AEROPLANES, drive luxury cars, perform intricate surgery, vacuum homes and milk cows. Now the calculating 'bots want your money too. In the US, robo-advice has taken off in a big way. Companies such as Betterment and Wealthfront have more than $US5 billion ($6.8 billion) under management. That's largely because robo-advisers manage your investments for a fraction of the cost of traditional financial services.

Robo-advisers strip back investment costs by using low-cost exchange traded funds (ETFs) in portfolio construction. These are listed index funds that track market indices across the different asset classes and regions (see page 67).

The robo-advisers started out by courting people who wanted to make investments but whose assets were worth less than the minimum that would interest financial advisers. But it wasn't long before well-heeled investors jumped on board too. Lower fees, after all, mean higher returns.

Back in Australia, Stockspot, the first local fully automated online investment service, managed funds discount broker InvestSMART and others are gaining traction. AMP, National Australia Bank and some super funds have launched automated online investment tools. All players are jealously sizing each other up.

For years, the big banks and insurers have dominated financial services and amassed huge profits. But scandals involving conflicted advice, high fees and poor results have left disgruntled investors ready to embrace alternatives that offer better value. The timing couldn't be better for robo-advisers.

Claire Mackay, principal investment adviser at Quantum Financial, sees robo-advice as the next phase in the "democratisation of finance" following earlier milestones: the first stockmarket, first mutual fund, first index fund and first ETF, each opening investing

to more people and shaking up the old order. "Continual innovation in financial services is good if it highlights the value of services consumers are receiving and the price they are paying for that," she says.

"It means consumers will be more questioning and that's a very good thing. Those people who will use it are early adopters. It's going to be attractive to people who developed some form of savings, have a distrust of financial advice or are concerned about the cost."

Returns tailored to risk

Chris Brycki, the founder and CEO of Stockspot and a former portfolio manager at UBS, says his service is a completely online service involving a couple of steps. "Clients go through a questionnaire that asks them about their investment time frame and what sort of risk they are prepared to take.

"Using that information we then match clients with a low-cost portfolio of ETFs across multiple asset classes. The aim is to give people the most efficient mix of investments based on their particular goals. So by combining different assets like bonds and shares, you can give people the best returns possible for the amount of risk they are prepared to take."

Stockspot has five model portfolios: aggressive growth, growth, balanced, moderately conservative and conservative.

Brycki says half his clients are younger than 40. "Some people are saving up for a house, others are saving up for retirement or their kids' education. They all involve different investment time frames and therefore should be allocated a different amount of risk.

"Algorithms take into account the information given. They don't act on gut feelings or have knee-jerk reactions. They can crunch mind-blowing amounts of data rapidly to formulate an investment approach across geographies and asset classes that is often less risky than highly skilled human investors."

During August's market turmoil Stockspot clients took advantage of lower prices. "We saw our biggest number of clients topping up their accounts. We were able to quickly rebalance portfolios when needed to keep them optimised. Most self-directed investors would not have had the time or knowledge to do this."

Brycki says once your Stockspot profile is set up, you can adjust your investment strategy to reflect changes in your circumstances. "Ongoing management, optimising your portfolio and financial reporting are done automatically."

Stockspot is the only robo-adviser to give clients a statement of advice. "There are a few financial planning practices that have automated parts of the advice process but, in terms of giving consumers advice on investing directly with an SOA, we're the first, the only guys, that do that at the moment," he says.

Investors need a minimum of $2000. For those investing less than $10,000, there's no charge for the first year. "It's a way for consumers to test our product and have confidence in it, so that's a very popular tier," he says.

After that, the advice fee is $77pa, plus a management fee of 0.92%pa for amounts less than $50,000, dropping to 0.53%pa for amounts more than $500,000. The cost of investing $100,000 is 0.792%pa plus $77pa, or $869 a year (see *How the fees compare*).

Another important Stockspot feature is that clients retain beneficial ownership of their investments. "Instead of having a custody structure, where all assets are held by a third party under one account, we've decided that's not probably the best for clients. They like having direct beneficial and legal ownership of their investments. They don't like having counterparties where there's additional risk.

"Every client has their own pin, their own unique identifier, and we do all the trades individually for them. If clients want to leave us they can do so without having to sell their investments. The other side is, it's slightly more expensive.

"Some ask why our product is between 0.5%pa and 0.9%pa whereas the US guys [Betterment] are 0.25-0.5%pa. From a cost perspective, that is the main reason. We structured things in a way that is better for the client but it ends up being a bit more expensive."

Contest heats up

In July, discount managed funds broker InvestSMART launched its robo-advice tool "harnessing the power of ETFs". Ron Hodge, the managing director and founder, says robo-advisers are forecast to manage $255 billion globally by 2019.

"I can see a situation where many Australians that don't currently use a financial planner will turn to a robo-adviser for their straightforward needs and use an adviser when their circumstances become more complex." Hodge says his service takes a more holistic approach to portfolio

HOW THE FEES COMPARE

Stockspot's Chris Brycki says investors pay about 3% to invest in actively managed funds. He gives average fees as follows: 1.91% for an Australian equity fund; 0.5% for the platform; and 0.75% for advice.

While actively managed funds are supposed to outperform the market index, many don't, which explains why passive funds – including exchange traded funds – are so popular. You "buy the market" rather than bet on a theme or sector.

"In a low-return environment – which people are more accustomed to now, not the 15% or 20% a year but more like 5% or 10% a year – it becomes harder to justify. If you are paying 3%pa and are only earning 9%, that's a third of your total return that you are paying in fees," Brycki says.

"Fees are something people didn't think about when we were in the bull market of 2003 to 2007 and maybe even before that. But it's something a lot more investors are becoming more sensitive to because they can see the impact it has on the overall performance. They've seen the return get drained even more."

He cites a recent ASX survey which found active funds were going out of favour "as more people either invest directly into shares or ETFs or products like ours".

An ETF such as Vanguard's Australian Share Fund charges 0.15%pa compared with some equity managers that charge upward of 2.5%. A Stockspot ETF portfolio of $50,000 would incur an annual management fee of about 0.8%, an ETF fee of 0.15% and a $77 advice fee – or about $552 a year in total.

It compares favourably with My Super – one of the lowest-cost investments on the market – which costs 1%pa ($500 for a $50,000 balance). But not everyone wants all their money tied up in super.

"Passive investing makes sense providing you are paying passive prices," says Nathan MacPhee, joint CEO of research firm Lonsec. "If you aren't, the benefit is eroded as the cost will be a drag on the performance."

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construction. "Many existing robo-advice models simply direct investors to risk-profile-matched portfolios, without taking into account the investments they already have, both outside and within super. Unfortunately, the result of this narrow approach could lead to seriously adverse outcomes for investors.

"InvestSMART's approach takes into account the full breadth of an investor's current portfolio, including shares, managed funds and property. It includes a comprehensive health check, which compares each investor's existing portfolio of investments with an expert's benchmark portfolio to identify gaps in diversification."

The robo-advice tool also allows investors to simulate changes in their portfolio to move closer to an optimal allocation. They can also use the website to access hundreds of other products. Fees depend on your assets, beginning at 0.97%pa and falling to 0.67%pa for investments over $2 million. On $100,000 the management fee is 0.97%pa, or $970. Hodge compares this with the average cost of a retail balanced fund at 1.68%, or $1680 a year on the same $100,000 investment.

Investments are held in the name of the custodian, HSBC, on behalf of the investor. However, if the investor decides they'd like to take control, they can request a transfer from the custodian into their own name.

InvestSMART doesn't issue a statement of advice; the recommendations are made under "general advice". "We don't see robo-advice as a replacement for advisers, rather we see it as complementary," says Hodge.

Indeed, life is full of complexity, especially if you take tax, divorce, death, estate planning, social security, business ownership or super regulations into account. In the US, Betterment has moved to a hybrid model that allows advisers to manage wealthy clients' investments on its platform. It also makes planners available.

Quantum's MacKay says quality advice goes beyond portfolio construction. "You can only automate so much. Younger people with smaller balances are more attracted to it because of the lower cost of entry. Those approaching retirement, or in retirement, have a much larger balance so the risks associated with it would be a lot larger, plus there is more complexity to their situation. I've yet to see a computer program or robo-advice system incorporate it into its analysis."

The rise of robo-advice is likely to see advisers gravitate to people with complex affairs – those with self-managed super funds, those who run businesses and those with lots of money, says research firm Rice Warner CEO Michael Rice. "If you've got $10 million, you might not mind someone earning $50,000 or $100,000 a year looking after it for you because the risk of getting it wrong is quite severe."

Mackay says investors should always check out the provider, especially counterparty risk. "The concern would be if they structured the investment so that it's not in your name. If you leave, can you take your investments with you, or is part of a wrapped package? Do you own the investments or do you own a share in a larger fund and, technically, is there transparency as to what you own title to?" **M**

SUPER FUNDS OFFER ONLINE ADVICE

Smart technology has also made inroads into superannuation advice. For the past six years members of not-for-profit super funds have been able to use an online advice tool to help them decide on their investment strategies.

"A number of industry super funds provide their members with online advice services," says Lonsec's Nathan MacPhee. "You could define this as robo-advice but we have always seen it as self-drive online advice. It is configured to the benefits and features contained within the super fund, so it uses the specific super fund's investment options, fees and insurance design and premiums." It guides members through an assessment that considers retirement adequacy, contribution optimisation and investment risk and includes an insurance needs analysis.

"Funds that have garnered the most benefit out of it use it in conjunction with other advice channels, such as telephone, face-to-face and seminars, and actively track statement of advice issuances and implementation rates," says MacPhee.

Users include HOSTPLUS, Christian Super, Intrust, NGS Super, Club Plus, QIEC, Club Super, Suncorp and Auscoal Super.

He doubts it spells the end of the financial planning industry. "There is so much more to an advice process and understanding what a real person's needs and wants are, what their goals are and how likely they are to achieve them. The investment component of advice is almost the last step.

"With a good financial planner, it will take a number of meetings, a number of conversations, to tease out your situation, your long-term goals, your mid-term goals, and devise a plan to get you there. And the last step in that should be what is the investment structure to get you there."

DISCLOSURE: Money's chairman and chief commentator, Paul Clitheroe, is also chairman of AWI, which invests in fintech companies including InvestSMART and Stockspot.

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STORY SUSAN HELY

Spoilt for choice

There's something for everyone in the ETP family but make sure you understand the complexities and risks

THIS YEAR, 24 exchange traded products (ETPs) have been launched on the ASX already, broadening even further the choice for investors.

It wasn't surprising that, as global sharemarkets rocketed higher, new global ETPs – focusing on investment in a range of securities, including Chinese equities and US equities – made their debut. High-dividend ETFs were rolled out as newcomer providers, such as ANZ Bank and ETF Securities joined big global players Vanguard, iShares (BlackRock) and State Street Global Advisors.

ETPs with a variety of bells and whistles, such as gearing and short selling, were joined by actively managed funds including the highly successful Magellan Global Equities, whose listed ETP provides investors with another way to buy its flagship fund.

There are more than 127 ETPs listed on the ASX. "Exchange-traded product" is the umbrella term for four types of securities: ETFs, structured products, synthetics and listed managed funds.

The majority of the securities are ETFs, which are broad-based, highly diversified index funds that track a particular aspect of the sharemarket. They hold the underlying physical investments in an index. These tend to be the building blocks of a portfolio, such as the oldest Australian ETF, SPDR S&P/ASX 200, which tracks the top 200 shares on the local sharemarket, or Vanguard US Total Market Shares ETF, which covers 4000 securities listed on the New York Stock Exchange and NASDAQ. Some use "smart beta" strategies to select themed shares for a particular purpose. For example, there are high-yield ETFs that invest in companies that consistently pay above-average dividends.

But investors need to take care when selecting the best product for their circumstances because not all are the same. "Now we are seeing more sophisticated and complex products," says Alexander Prineas, Morningstar's research analyst. Some ETPs carry more risk than others.

For example, "structured" products don't hold an index's or benchmark's underlying securities or assets but replicate their performance synthetically. The main reason is that it's impractical to invest in and hold physical goods such as wheat and oil, says Prineas, but there are other reasons too. A product may also simulate the investment performance of an index or benchmark.

In addition, there are a small number of synthetic products that use over-the-counter derivatives to achieve their objective. They are not subject to central counterparty clearing, which can help to minimise risks. "Your investment is only as good as the balance sheet and collaterisation of that counterparty company," says Prineas.

The ASX has mandated that all derivative counterparties for listed synthetic ETPs must meet certain requirements to minimise the risk of the counterparty failing. The rules require each synthetic ETP to limit the amount of assets reflecting money owing by over-the-counter derivative counterparties to 10% of the net asset value of the product.

Synthetic and structured products involve different risks from other ETPs and you should always read the product disclosure statement carefully to ensure you understand how they operate. Prineas says there may be different taxation outcomes for investors in synthetic products compared with funds that replicate an index, and that may affect returns.

Managed funds considered part of the ETP family can include both actively managed and passively managed investments. Offering units in a trust rather than shares in a company, they can use gearing or short selling, and invest in a single asset. *M*

GAP TO BE FILLED

Vanguard Australia plans to launch new ETFs that offer investors broadly diversified exposure to global fixed income, including international government bonds and credit securities. International fixed interest has been the missing asset class in the ETF line-up. The two new offerings are International Fixed Interest Index (Hedged) ETF (ASX code, VIF) and International Credit Securities Index (Hedged) ETF (VCF). Vanguard expects the funds will be quoted for trading on the ASX before the end of the year.

"Since launching our first ETFs in 2009, Vanguard has focused on building our range to cover all the major asset classes," says Robin Bowerman, Vanguard's head of market strategy and communications. "There are currently no international fixed-income ETFs trading on the ASX, so the launch of VIF and VCF will allow Australian investors to create portfolios that are truly diversified across and within asset classes using ETFs."

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STORY SUSAN HELY

SUPER TO THE RESCUE

Check the terms and conditions of your fund's cover to make sure you are getting value for money

SOME PEOPLE CHOOSE a super fund not for its investment performance but for its insurance cover. Insurance arrangements can vary widely from fund to fund while investments held by super funds can be fairly uniform. So why do people cherrypick a super fund based on its insurance?

There are significant differences in insurance plans that make a big impact if people fall ill or are injured in an accident. Also people want value for their dollar. But insurance deals are numbingly complicated to compare – even though many super funds pride themselves on keeping the arrangements simple.

There are so many variations with insurance it's hard to compare apples with apples. For example, some funds provide automatic acceptance for all three types of insurance: life, total and permanent disability (TPD) and income protection. Others don't.

Some funds, such as REST, offer a life-stages style of insurance that automatically adjusts the cover according to a member's age, gender and occupation, anticipating people's insurance needs. Under REST's life-stages insurance, younger people have lower levels of life and TPD insurance cover but, as they age, take on more debt and have dependants, their cover increases. "It is a fail-safe approach as your life progresses," says REST chief operating officer Andrew Howard. As with most super funds, members can opt in for higher levels of cover or they can opt out of insurance altogether.

Costs and benefits can vary, sometimes quite a bit, from fund to fund. The terms and conditions can also be quite different. One indicator to look at is the level of cover you have for your age across funds. Some funds offer a monthly income protection insurance payout for two years while others, such as REST and HESTA, offer long-term income protection that can pay out a monthly income to the age of 67 to cater for the increasing number of people working past 65.

Certainly it is worth paying attention to your fund's insurance and whether it fits your circumstances. For most Australians, a super fund provides their only form of financial protection in case something goes wrong. Compared with other countries, Australia's is a unique arrangement for insurance to be held in super.

> Often the super funds use their large membership base to **negotiate cheaper rates** with insurers

When compulsory super was introduced in 1992, industry funds began to offer insurance to look after the many members who had no cover through the private do-it-yourself system. It has certainly helped reduce the underinsurance gap, which financial consultants Rice Warner estimates to be around $17 billion at present. Many more Australians hold insurance inside, rather than outside, super. Some 71% of Australians' total death benefits are held in super, as is 88% of the TPD and 59% of income protection, Rice Warner estimates.

How does insurance in super work? Typically when you join a fund, it will provide some cover. Most fund members pay a couple of hundred dollars a year for default insurance cover, says Kirby Rappell, the research manager at SuperRatings.

The main benefit of holding insurance through a fund is that it is much cheaper because it comes out of your super money, which is taxed at only 15%. Another big advantage is that it is commission free, unlike private insurance, which often involves paying high fees to advisers. Importantly, the insurance within super is a simple product and often the funds use their large membership base to negotiate wholesale rates.

Fund communication and education about insurance arrangements have improved over the past five to 10 years, says Geoff McRae, a senior consultant at Rice Warner. There are calculators and advice tools to help members.

Debby Blakey, from HESTA, says there is more interest and awareness about insurance among fund members. And with this come higher claims.

There was a huge spike in claims after the GFC. Mental illness and suicide claims are rising, making up around 10% of all insurance

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claims within super. In some age groups, the figures are much higher, with 26% of all male death claims coming from the 25-34 range and mental illness accounting for 25% of all female TPD claims in the same age group, says Margo Lydon, the CEO of SuperFriend, a not-for-profit health foundation formed by the super industry and insurers to support fund members.

Over a five-year period, claims related to suicide collectively cost the super funds' insurers more than $200 million, with an average cost for each claim of $120,410. TPD claims related to mental illness cost $147.9 million, at an average cost of $82,960, estimates SuperFriend. Cancer claims are also rising, possibly because of an increase in obesity. Other claims relate to muscular skeletal injuries, heart disease and unknown reasons.

As a result, premiums have jumped over the past few years – some by more than 120%. Funds are trying to control the number of what they see as borderline claims, which push up premiums for other fund members. SuperRatings' Rappell says funds want to make sure that insurance is there to help people in need.

In response to rising claims, super funds have had to negotiate new arrangements with the big life insurers. As well as lifting the cost of insurance, funds have worked with insurance companies to improve rehabilitation and retraining to speed up claimants' return to work. There is evidence that there is a 40% chance of claimants returning to work if they notify the fund of a claim within the first six months of falling ill or becoming injured, says Rice Warner.

But at the same time lawyers are advertising how they can help fund members make an insurance claim. Funds have recently seen a jump in the involvement of plaintiff lawyers working with members to make a claim. But most people don't need a lawyer to make

CHECKLIST

Insurance is there for unforseen emergencies. Life cover isn't for you but for the people you leave behind. TPD insurance will help cover your debts and living costs when you can no longer work. Income protection covers a portion of your living costs when you are too sick or injured to work.

Check with your super fund:

- Do you have insurance through your fund? Not all funds provide it.
- Ask what sort of insurance you have. Usually they are life, total and permanent disability (TPD) and income protection.
- What is the cover? For example, if you died how much would your family receive? If you are too ill to work, what would your monthly income be? For how long is it paid out?
- Is the cover high enough to maintain payment of your debts? If you have young children, is it enough to pay their education and living costs?
- In the case of income protection, how long is the waiting period before you are paid an income?
- Can you take out more insurance?

a successful claim, says McRae. "If it is a straightforward claim, they don't need a lawyer. The worst example is a death claim. Certainly a death claim doesn't get contested and members don't need a lawyer. It is a complete rip-off," says McRae.

In fact, the vast majority of claims would be paid regardless of the involvement of a plaintiff lawyer. Using a lawyer means the fund member can face legal fees as high as 40% of the insured benefit.

One of the most confusing parts of insurance in super is the unit price cover. Most default funds offer one, two or three basic units of insurance. Units may be designed to keep the price stable but you can't compare units across funds because they differ.

What fund members need to know is that most automatic default insurance arrangements pay out only modest amounts, which may not be enough to cover mortgage payments or the cost of raising children.

Rappell recommends that members talk to their super fund about whether they have the insurance cover they need as well as the terms and conditions of the cover. It is important to seek financial advice about insurance to get it right. Funds such as REST provide advice over the phone for members who want help with their insurance. REST's first piece of advice is free for members. "People need to be mindful of where they are in life," says REST's Howard.

Also fund members need to be aware of the drain insurance payments have on their retirement benefits. If you bump up your cover, it comes from your super savings and you may need to contribute more. Also part-time and casual workers can have their super savings eaten up by insurance costs.

This is one of the reasons Hostplus, a fund with more than 60% of members working casually or part-time in hospitality, has overhauled its automatic insurance arrangements, cutting the premiums from $2.77 to 25¢ a week because they were eroding account balances. "We can't have a one-size-fits-all approach for our members. We are best off providing a basic safety net with options," says Therese Kenny, the group executive for finance, risk and operations at Hostplus. As a result, the level of death cover has dropped from $100,000 to $25,000.

Hostplus has extended death cover from age 65 to 70 in recognition of the high number of second marriages. It has not changed any terms and conditions, says Kenny. It found that income protection insurance – which doesn't cover part-timers or casuals – doesn't fit its demographic but offers it on a voluntary opt-in basis.

With the higher claims, insurers have put pressure on super funds to tighten their terms so that payouts go to people in genuine need.

AustralianSuper, Australia's biggest fund with $93 billion invested, had a sharp increase in premiums in 2013 and 2014 after a rise in claims but Richard Weatherhead, the head of insurance products at AustralianSuper, says premium costs have stabilised. As a result, this year premiums for both death and TPD and income protection have dropped by between 9% and 22%.

AustralianSuper has tightened the wording of the terms that relate to people returning to work. An application for extra insurance cover now includes limited questions. "The claims experience was worse for people who dialled up their claims," says Weatherhead.

Retraining and rehabilitation to help people return to work is a top priority at many super funds. REST, for example, has increased communication with claimants.

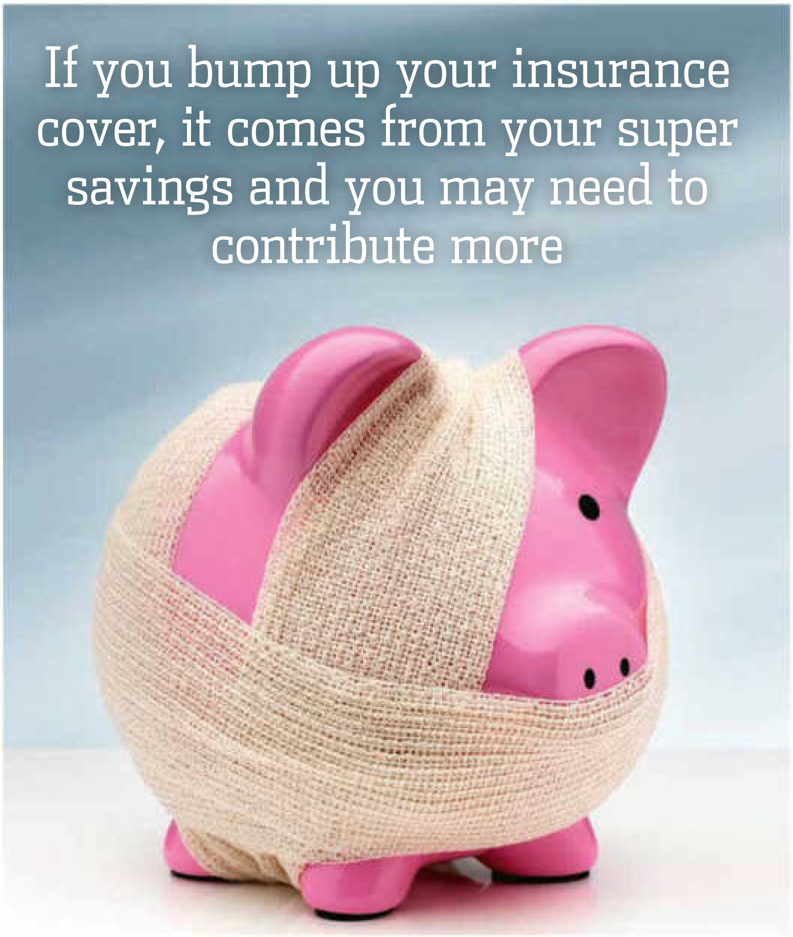
AustralianSuper reviews its insurance prices every year with its insurer, TAL, rather than every three years. Weatherhead says this is fairer to members too, as it keeps the fund up to date with the claims experience.

Payouts from insurance companies for TPD insurance claims have been difficult for some funds. In the case of REST, it paid 99% of death claims, 94% of income protection claims but only 30% of TPD. "To have very strict definitions is very concerning," says Blakey.

Some funds, such as HESTA, have dropped TPD from their standard offering, with Blakey believing that the regular income from income protection is much more relevant to members. HESTA members can still opt in for TPD. "Members have a lot of trouble dealing with a lump sum and knowing how to invest it until they are old," says Blakey.

Weatherhead says Australians are much more likely to be off work than to die or be temporarily or permanently disabled.

AustralianSuper's income protection insurance kicks in after 60 days from when the claimant stopped work, but some funds have a 90-day period to keep the premium lower. Members can cut the waiting period to 30 days if they are prepared to pay a higher premium. **M**



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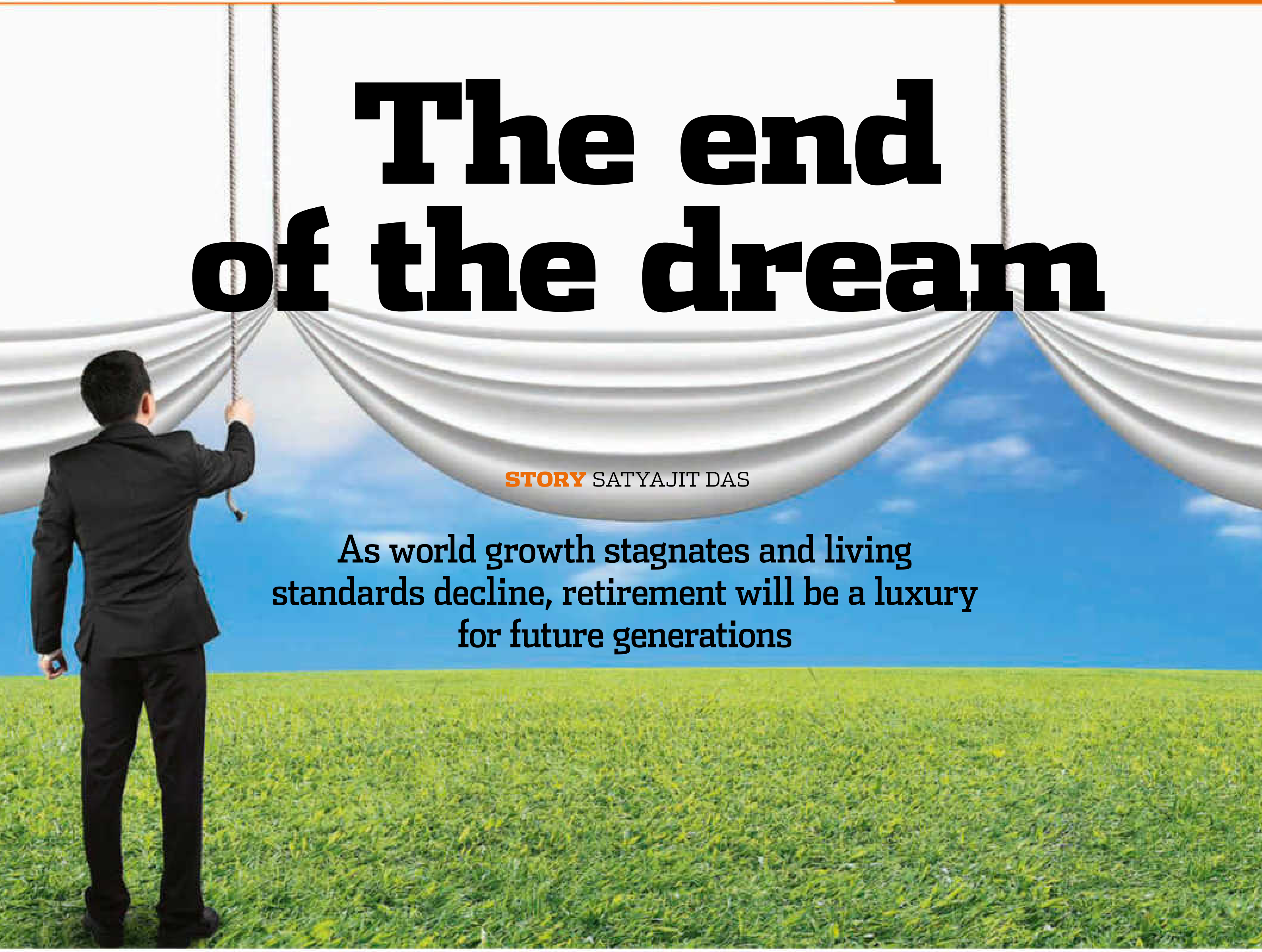
The end of the dream



STORY SATYAJIT DAS

As world growth stagnates and living standards decline, retirement will be a luxury for future generations

IN THE POST-WORLD WAR II period, each generation was encouraged to expect higher living standards than its predecessor. Steady improvements in living standards were founded upon a good job, a nice home and an early and comfortable retirement.

The reality is that these elements that citizens in developed nations took for granted were based on fragile foundations – "Ponzi prosperity". In the period leading up to the 2007-08 crisis, around half the economic growth in the world was based on increasing borrowings. The crisis highlighted the problems of unsustainable, high levels of debt. Now, as existing borrowings must be reduced, economic activity has stagnated.

The slowdown is also driven by the demographics of ageing in many societies, declines in education and science – which underpin innovation – decreasing returns on investment in energy and food, with resulting higher prices, as well as the impact of climate change.

Increasingly, most people will find their expectations are unattainable, as their basic foundation – continuous strong economic growth – is under threat.

The jobless

Lower levels of economic activity combined with the effects of globalisation and technology have inexorably altered work. It is increasingly fractionalised and outsourced to the lowest-cost supplier, anywhere in the world. Improved communications, robotics and remote command and control facilitate this process.

The process is no longer confined to low-skill jobs, such as textiles or simple manufacturing, but increasingly encompasses more complex tasks and even professional activities. Technology also de-skills jobs and alters business models. In turn, this changes the work available, the rates of pay and working conditions.

The workforce is increasingly stratified between those whose skills are in demand and the rest. It is stratified between often older workers with salaried employment and related benefits and newer workers hired on fixed contracts with lower entitlements. Casual or contract work, often of short duration, lowers effective earnings, because of the absence of benefits, with employees bearing the cost of unemployment and underemployment, sick leave, training and tools of trade. It also reduces income security.

The homeless

In the period until 2008, home ownership rates increased, providing secure shelter and

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also becoming an important store of wealth. Encouraged by government assistance and subsidies, individuals overinvested in their own houses. The net equity – the difference between the value of their home and the mortgage outstanding – increasingly constituted a significant part of personal savings and wealth. It could be drawn on to finance consumption as needed and ultimately to meet retirement needs. Some also purchased houses to rent out, usually financed with debt, hoping to profit from future property price rises.

But a residence cannot be a financial asset, as long as the owners require a place to live. A principal residence does not generate income, instead requiring cash to cover taxes, maintenance and other costs. Income from rental properties after meeting costs frequently does not cover repayments on the debt used to buy the property.

Home owners can only release cash by selling and purchasing something requiring a lower outlay. Investors must sell their real estate investments or discharge associated debt to free up cash for their living requirements.

Home owners are exposed to fluctuations in real property prices. Since 2007, house prices have fallen by up to 60%-70% in the US, UK, Ireland and Spain.

The risk is compounded by the fact that large proportions of an ageing population will reach retirement age around the same time, needing to adjust their real estate holdings.

Policy actions of governments to alleviate the effects of the 2007-08 crisis have distorted property markets. Ultra-low interest rates and quantitative easing (QE), a policy where central banks provide abundant liquidity to governments and the economy, have artificially boosted house prices.

Designed to restore household balance sheets to encourage consumption and also protect the financial system, which is heavily exposed to a sharp fall in house prices, the policies have increased prices of existing houses rather than significantly increasing construction of new houses. This has increasingly priced new home buyers out of the housing market.

Where they are able to purchase, most people take on high levels of mortgage debt and commit a high proportion of their income to meeting repayments, despite low interest rates. Difficulties in home ownership reduce the ability of individuals to build up savings, providing a buffer for employment uncertainty and retirement income. The combination of uncertain employment, declining income and more limited opportunities for home ownership reduces living standards.

Working forever

Retirement income was once provided by defined benefit (DB) pension schemes underwritten by governments and employers, where workers received pensions based on their final salaries which were indexed to inflation to maintain purchasing power. Most schemes were not fully funded, operating on a PAYG (pay-as-you-go) basis with new generations or entrants into the scheme financing promised benefits to older beneficiaries.

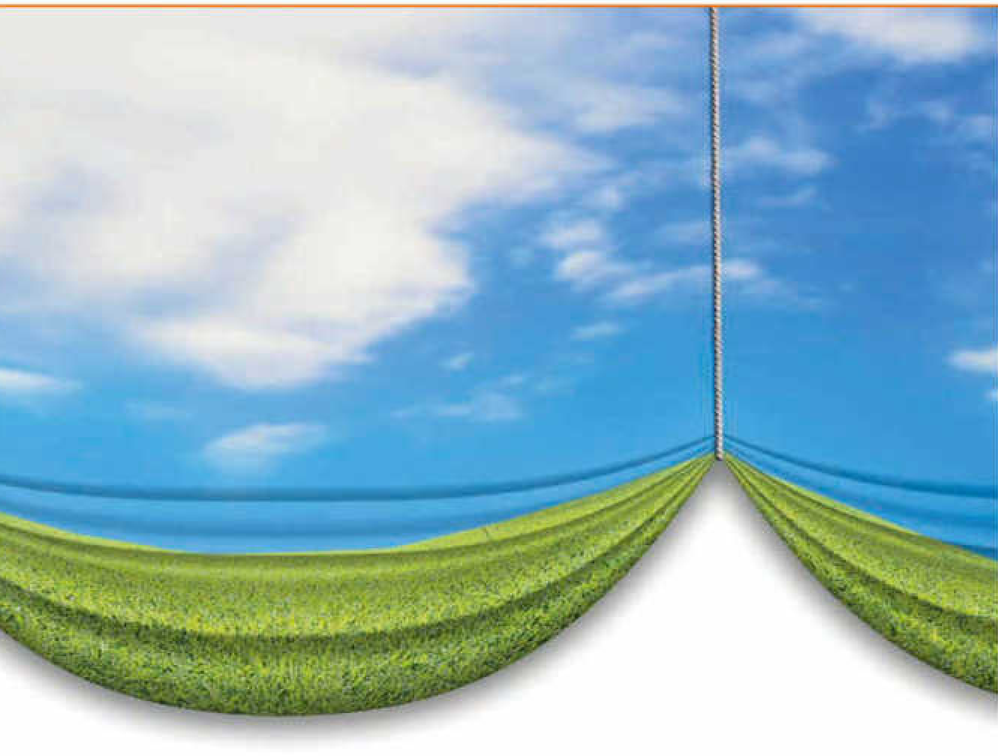
Ageing populations and also changing workforces make such schemes unworkable. In 1970, in the US, there were 5.3 workers for every retired person. By 2010 this had fallen to 4.5 and is expected to decline to 2.6 in 2050. Most developed countries face even sharper decreases. In Germany, the number of workers per retiree will decrease from 4.1 in 1970 to 3.0 in 2010 to 1.6 in 2050. In Japan, the oldest society to have existed, the number of workers per retiree will decrease from 8.5 in 1970 to 2.6 in 2010 to 1.2 in 2050.

The unsustainable burden on the current workforce means that the promised entitlements will need to be renegotiated. Many nations have already increased the retirement age, reduced or eliminated automatic adjustments for cost-of-living increases or decreased benefit levels. Companies similarly have renegotiated entitlement, often using bankruptcy courts to facilitate the process.

Anticipating the difficulties, many countries and companies discontinued DB schemes, replacing them with defined contribution (DC) schemes, where the final payout is based on employee savings augmented by employer payments and investment earnings. In many countries, DC schemes now dominate. Under DC schemes, the risk of retirement income is transferred to the beneficiary. He or she is responsible for the level of savings, investment returns, cost increases and the risk of longevity. DC schemes may prove unable to provide a satisfactory level of retirement income.

A 25-year-old worker planning to retire at 65 and with a life expectancy of 85 earning $80,000 (combined income of the individual plus partner) would need to save $10,000 a year (13% of pre-tax income) to achieve the recommended level of retirement savings, usually specified as $50,000pa or equivalent per couple in developed countries. This assumes an inflation rate of 2%pa and investment returns of 3%pa above inflation (5% in nominal terms). This equates to total savings of $1.7 million at retirement (equivalent to $750,000 today).

In reality, retirement savings are well below these levels. In Australia, which has one of the



The solutions are simple. Citizens will have to save more and consume less. Working lives will have to lengthen. Taxes and charges will have to rise

world's better retirement systems, the average Australian retires with $200,000 for men and $110,000 for women.

A high proportion of households will run through retirement savings in their lifetimes, leaving them dependent for financial support on the states, whose increasingly stretched finances will force them to reduce benefits or limit entitlements to only the most needy.

Unable to build adequate savings and with an inadequate social safety net, retirement will become a luxury, available to only a small part of the population. Most workers will have to work much longer, perhaps as long as they are physically capable or until death.

Extend and pretend

The official response to the problems was a policy of "extend and pretend", whereby authorities chose to ignore the underlying problem, cover it up or devise deferral strategies to "kick the can down the road". Government spending, lower interest rates and the supply of liquidity or cash to money markets would create growth. It would also increase inflation to help reduce debt, by decreasing its value. Unfortunately, the policies have not succeeded.

Increasingly, authorities have resorted to untested policies, in an attempt to buy time, to let economies achieve a self-sustaining recovery, as they had done before. These policies are ineffective, merely transferring the burden onto future generations.

A 2013 Pew Research Centre survey conducted in 39 countries asked whether people believed that their children would enjoy better living standards: 33% of Americans believed so, as did 28% of Germans, 17% of British and 14% of Italians. Just 9% of French people thought their children would be better off than previous generations.

The real solutions are actually simple. Living standards will have to decline in real terms. Citizens will have to have to save more and consume less. Working lives will have to lengthen. For many, retirement will have to revert to being a luxury. Taxes and charges for government services will have to rise to match the cost of providing them. There has to be greater emphasis on the real economy – the creation and sale of goods and services. Financial institutions need to return to their role of supporting economic activity, rather than engaging in or facilitating speculation.

The change will happen in one of two ways. It can be by choice, with societies debating the issues properly and reaching an equitable solution to share the costs. Alternatively, it will happen as the system collapses with devastating and highly disruptive consequences. Irrespective of the trigger, the required adjustment will result in a prolonged period of stagnation, characterised by low or no economic growth.

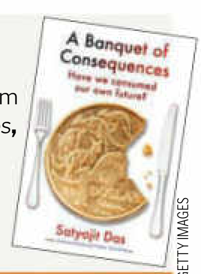
The problem is social and political as much as it is economic and financial. Fearing electoral oblivion, politicians and policymakers, irrespective of ideology, are unwilling to openly discuss a decline in living standards. Fearing electoral oblivion, they surrender to populist demands for faux certainty and placebo policies. They are merely piling up the problems.

It is not in the interest of bankers and financial advisers to tell their clients about the real outlook. Bad news is bad for business. The media, for the most part, accentuate the positive. Facts are too depressing. The priority is to maintain the appearance of normality, to engender confidence. Ordinary people are also culpable, refusing to acknowledge that maybe you cannot have it all. But everyone knows in their hearts that the present state of affairs is unsustainable and that the ultimate cost of the inevitable adjustments will be large.

The world will have to discover for itself the truth of philosopher Michel de Montaigne's rhetorical question: "How many things we regarded yesterday as articles of faith ... seem to us only fables today?" ***M***

ABOUT THE BOOK

This is an edited extract from *A Banquet of Consequences*, the latest book by former banker Satyajit Das (RRP$39.95, published by Penguin Australia).



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STORY PAM WALKLEY

BARGAIN TERRITORY

The GFC battered Europe and subsequent crises, notably in Greece, led to economic weakness but, the final instalment in our three-part series, finds there are rich pickings for astute investors

THE EUROPEAN Central Bank strategy of pumping cheap money into the region's economy via a quantitative easing program, signalled early in the year and started in March, was initially a big boost to markets. The region's shares enjoyed their best start to a year in almost two decades, with the Euro Stoxx 50, the leading blue-chip index for the euro zone, reaching a seven-year high in April. But since then it has tumbled about 19% in the wake of problems in Greece and later worldwide concerns about China's falling growth.

The broader S&P Europe 300 Index, which measures the performance of 350 leading companies in continental Europe and the UK, has fared better, falling just 9.04% in the September quarter.

The Greek meltdown and generally weaker economic conditions in Europe over the past few months have driven share prices down, a correction of up to 15% in some countries, says John Abernethy, chief investment officer at Clime Asset Management.

"But investors outside Europe should distinguish between broader economic and company-specific fundamentals," says Abernethy. "For example, the world's largest

brewery, Anheuser-Busch InBev, is listed in Belgium but its European income accounts for less than 30% of turnover.

"The secret to investment success in Europe is identifying companies which investors have unduly punished for being based in a country where macro drivers are weak but the companies' own positions are quite strong," says Abernethy. (See *Top European stocks*, at right, for Clime's recommendations.)

"Investors need to keep in mind that top-rated European stocks are global players whose revenue is generated from markets across Europe, America and Asia," says Vanessa Gilbert, a founder of Skaffold, which rates Australian and international stocks. "The Greek fiasco has impacted share prices which, for bargain hunters, means there are lots of top stocks that can be purchased at great prices." A falling euro has also made the region's exports more attractive. (See *Top European stocks*.)

Graham Secker, the head of European equity strategy at investment bank Morgan Stanley, points to low investor confidence as being a problem and predicts stock prices will catch up with earnings once confidence returns.

In a research note in late August, Secker said there was a high probability that European stockmarkets would be higher in three months. At that time the bank issued a "full-house buy signal" for European equities, based on market indicators that include valuation, fundamentals and risk.

Invest through funds

If building your own European equity portfolio is not something you have the time, inclination or money to do, you can get a slice of the action through managed funds and exchange traded funds (ETFs). The choices are fairly limited, as can be seen from the table provided by research house Morningstar (see page 74), but it will expand with the launch of another European ETF later this year.

Investors can also get exposure to Europe through diversified international funds. Returns from the European managed funds have been very strong, particularly over one year, but also over three and five years, as the table shows.

The biggest fund, Platinum Europe, has the strongest returns over the longer term, five and 10 years. Since inception in June 1998, it has returned an average of 12.51%pa and has consistently outperformed the MSCI Europe Index, against which it is measured.

Platinum Europe is spread across many countries. Its top three are the UK (20.5%),

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TOP EUROPEAN STOCKS

Skaffold

HAYS (LON: HAS) rated B1

Hays is global recruitment business which operates in the UK, Ireland, Europe and Asia Pacific and employs more than 5300 consultants in 237 offices across 33 countries. It is forecast to deliver growth of 37%pa over the next three years. Since 2012, debt has been declining and profits improving, driving improvements in return on equity, which is now more than 40%. It's the best-value top stock in the UK, trading at a 46% discount (share price compared with value) and a price-earnings of 12 times.

HUGO BOSS (EUR:BOSS) rated A2

Since 2009 profits have risen from €140.5 million ($219 million) to €374.5 million. This has helped it deliver consistent growth of more than 12%pa. Its debt has been declining and the company produces excellent cash flow, consistently higher than its reported profits. Online sales in the year to June 2015 increased 26% and future growth is forecast to be around 10%pa. A good price to buy today is around €93. The value is forecast to be €112 by 2017.

ADECCO SA (VTX: ADEN) rated A2

Headquartered in Switzerland, Adecco is the world's largest provider of human resource services and operates in 60 countries. A Fortune 500 company, it has been on a growth path since 2012, when earnings were 2.82 Swiss francs ($4) a share, forecast to be CHF6.20 by 2017. Skaffold forecasts Adecco will deliver 15%pa growth over the next two years, and says buying at around CHF70 represents value, as it forecasts the shares could be worth close to CHF100 by 2017.

Clime Asset Management

AENA (Spanish Stock Exchange: AENA)

Aena SA commands a national monopoly over air transport in Spain, owning 46 airports and two heliports. In our view Aena is akin to a recoiled spring for three reasons. First, Spain recently shifted to a dual-till regulation system, essentially deregulating the commercial activities (the government listed 49% of Aena in February). Aena's commercial revenue is among the lowest in the world and it can now reprice its commercial contracts to market rates, which has driven recent results and has a long way to go. Second is Spain's economic recovery from deep recession since the GFC, with green shoots emerging and auguring well for increased discretionary spending on travel as employment recovers. The third valuation, relative to peers such as Sydney Airport, shows Aena is trading at a significant discount on a price to free cash flow basis. It has the potential to earn substantially higher profits over the medium term, which will be a powerful driver of the share price if achieved.

DIAGEO PLC (LSE: DGE)

Diageo is the British spirits juggernaut with labels such as Johnnie Walker, Smirnoff, Tanqueray and Captain Morgan. Recently it has established itself in emerging markets in Africa, India and Asia. One more notable development was taking a controlling stake in the Indian-based United Spirits, the second-largest spirits company in the world (by volume). Europe has been one of the most consistent drivers of growth for Diageo but, since the GFC, Diageo Europe has suffered volume declines and margin compression, notably in its Smirnoff brand. However, the company remains the largest premium spirits business in western Europe by both volume and profits. A return to growth for Europe would provide Diageo a platform for a significant turnaround.

HENDERSON GROUP (LSE: HGG)

Henderson Group is a UK-based global asset manager with a proven track record over decades. Its products include an array of global equities, fixed income, multi-asset and alternative products. In many ways the stars have swiftly aligned for Henderson over the past year. Sound investment performance, accommodative monetary policy settings, substantial inflows of higher-margin retail funds under management – and thus the potential for operational leverage – have all contributed positively to Henderson's investment case for. Its recent results were impressive, with growth across all key metrics. First-half pre-tax profit was up 29% to £117.4 million ($250 million), net inflows totalled £5.6 billion and assets under management increased 10% to £82.1 billion.

Germany (17.2%) and Spain (6%). In terms of sectors, financials rank top (24.9%), followed by consumer discretionary (22.2%) and healthcare (9.2%). At the end of August, the fund held just over 21% of its value in cash, probably in expectation of future buying opportunities.

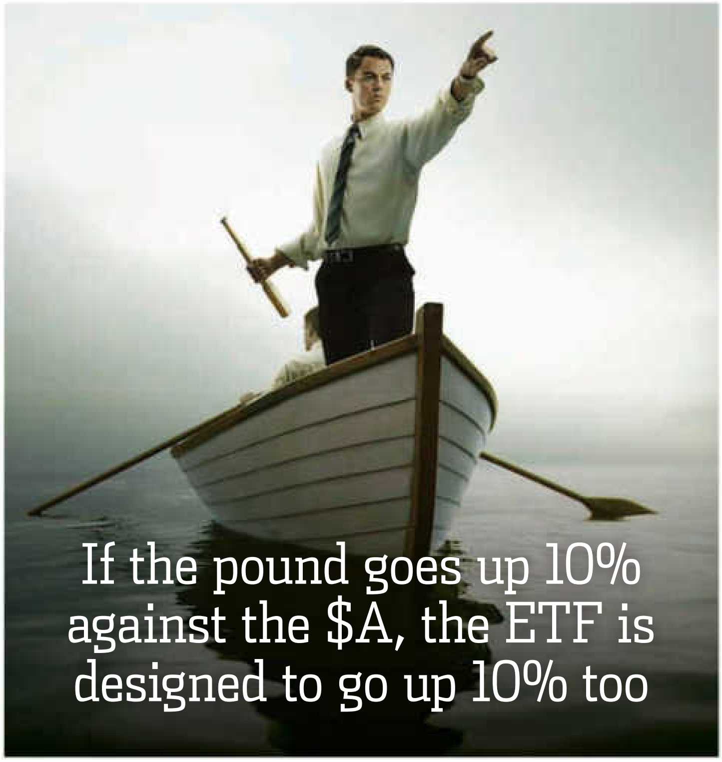
The BT European Share Fund (retail) has also performed strongly over the long term, notching up a total return of 11.06%pa (benchmark 7.97%) since inception in July 1986. It also benchmarks itself against MSCI Europe in Australian dollars. Its top three sector holdings are financials (20.4%), consumer discretionary (16.9%) and consumer staples (13.5%).

At present there are only two ETFs that invest in European equities (see below). But that will change when major funds manager Vanguard launches the Vanguard FTSE Europe Shares ETF before the end of the year.

The iShares Europe (AU), currently the biggest Europe-focused ETF on the Australian market, has performed strongly but has not matched the managed funds. It tracks the S&P Europe 350 Index and its top four country holdings are the UK (31.02%), Switzerland (15.06%), France (13.94%) and Germany (13.05%).

By contrast, the Vanguard fund will track the FTSE Developed Countries (ex US) Index but its geographical spread will be roughly similar. It will have an allocation of more than 30% to the UK, just under 15% to Switzerland, France and Germany and just under 5% to Spain and Sweden, says Damien Sherman, a senior product manager with Vanguard.

Vanguard's move into Europe is part of its strategy to offer investors choice and the ability to build diversified portfolios using ETFs, Sherman says.



ETFs give investors an easy, low-cost way to gain access to international equity markets, Sherman says. "While we don't make return predictions, we expect the fund will prove to be a very strong asset class over the longer term, five to 10 years."

The UBS ETF included in the table is also a relative newcomer, launched in February. It provides a diversified core exposure across European markets and aims to replicate the performance of the MSCI Europe ex Tobacco, ex Controversial Weapons Index, which captures large and mid-cap companies across 15 developed European countries.

Currencies

Rounding out the European ETF offering are two currency funds from BetaShares. In particular, the BetaShares British Pound ETF has provided investors with good returns. This fund tracks the changes in the price of the British pound relative to the Australian dollar. For example, if the British pound goes up 10% against the Aussie dollar, the ETF is designed to also go up by 10%. Similarly the BetaShares Euro ETF tracks the change in the price of the euro relative to the Aussie.

Real estate

Property is another asset class where there is a growing investor appetite for international diversification. If you want to invest in commercial European real estate, the easiest way is to choose a global property securities fund, such as the UBS Global Property Securities Fund, which has about 25% of its portfolio in Europe, including 14% in the UK. The one-year return to August is 6.2% and the three-year return is 13.87%pa.

With European retail property getting a good wrap in a new report from TH Real Estate, Westfield Corp, which has 29% of its portfolio in the UK and a development under way in Milan, is worth investigating. Westfield, now an international retail landlord since it spun off its Australian centres to Scentre Group in June 2014, has had a good year and its share price rose 32.4% in the year to October 2. ***M***

The author owns shares in iShares Europe.

HOW TO BUY A STAKE

	APIR/ASX CODE	NET ASSETS	FEE (%PA)	RETURNS (%PA) 1YR	3YR	5YR	10YR
UNLISTED MANAGED FUNDS[1]							
BT European Share	BTA0025AU	$80.3m	1.54%	23.21%	23.22%	13.73%	5.57%
BT European Share Ws	BTA0124AU	$15.7m	1.00%	24.24%	24.29%	14.81%	6.63%
BT PPSI-BT Ws European	WFS0254AU	$0.3m	1.00%	27.22%	25.27%	15.35%	6.89%
Platinum European	PLA0001AU	$470.0m	1.54%	22.23%	21.52%	14.64%	9.59%
EXCHANGE-TRADED FUNDS							
BetaShares British Pound ETF	POU	$15.3m	0.45%	16.24%	11.37%		
BetaShares Euro ETF	EEU	$4.1m	0.45%	9.50%	8.14%		
iShares Europe (AUD)	IEU	$588.1m	0.60%	12.44%	20.72%	10.97%	
UBS IQ MSCI Europe Ethical ETF	UBE	$4.9m	0.40%	NAp[2]			

Source: Morningstar; performance to 30-Sep-15; net assets as at 8-Oct-15. [1]Fund minimum investments: $5000, $25,000, $5000 & $20,000, respectively. [2]ETF launch date February 2015

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HIGH YIELDS

Property retains appeal

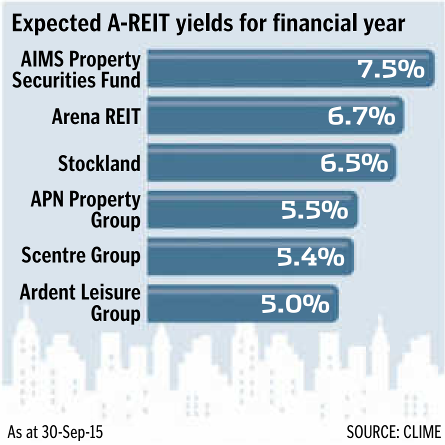
Opportunities are still available in A-REITS

Adrian Ezquerro,
senior analyst at Clime

Australian real estate investment trusts (A-REITs) had a strong 2014, outperforming much of the market, but this year they have drifted lower. With the US set to increase official interest rates, some investors are expecting prices to fall further.

Despite that backdrop, many property companies and A-REITs have been performing solidly, and we still think there are opportunities for investors seeking both yield and value. Here are six attractive stocks:

Stockland (ASX: SGP)
A strong housing market and improvements at Stockland's retail shopping centres are driving profit growth.



APN Property Group (APD)
APN is benefiting from the growth in superannuation savings and renewed interest in income assets. It is forecast to distribute about 2¢ per security over the next 12 months.

Arena REIT (ARF)
Arena has performed exceptionally well since its 2013 listing. It owns 197 properties in total, comprising a large childcare portfolio and a growing healthcare portfolio. It offers a sound mix of potential growth and regular income.

Ardent Leisure Group (AAD)
Ardent has long-term growth potential from its US assets, strong cash flow and a solid distribution yield. It will also benefit from the falling $A.

AIMS Property Securities Fund (APW)
AIMS will pay out about 1¢ per unit over the coming 12 months, or around 0.25¢ per quarter, which on the current market price suggests an attractive yield.

Scentre Group (SCG)
Scentre manages, develops and owns interests in 47 Westfield shopping centres in Australia and New Zealand. The full-year payout is forecast to be 20.9¢ per security.

In the best of health despite the risks

Chris Kallos,
Healthcare and consumer analyst at Morningstar

Healthcare spending is set to increase to 5.7% of GDP by 2054-55, according to the Treasury department's 2015 intergenerational report, and there are plenty of projects creating new impetus for reform of funding arrangements for healthcare providers.

Despite a relatively benign 2015 federal budget, the government moved to freeze indexation on rebates for general practitioners and signalled a sweeping overhaul of the Medicare Benefits Schedule (MBS). The MBS is the government's primary funding scheme for primary care medical service providers and an overhaul will potentially affect more than 5500 items in primary care. We expect service companies with economic moats – and less reliance on government funding – to prove more resilient to the reforms. Therefore, we view these as best positioned for investors seeking long-term exposure to the attractive healthcare market fundamentals.

Momentum is building for changes in ownership rules in retail pharmacy, which we expect are most likely to occur by 2020. Narrow-moat Sigma Pharmaceuticals (ASX: SIP) is our preferred exposure in the pharmaceutical wholesale sector, given its solid retail service offering. In the private hospital sector, narrow-moat Ramsay Health Care (RHC) dominates, giving it a powerful bargaining position in contract negotiations with insurers. It is our preferred holding.

Among medical service providers, Primary Health Care (PRY) is exposed to both the freeze on GP fee indexation and further changes in the MBS through its pathology division. In sharp contrast, the increasingly global pathology business of narrow-moat Sonic Healthcare (SHL) is diversifying revenue away from domestic funding risk. As a result, Sonic remains our preferred service provider in the sector.

INSIDE SHARES THIS MONTH

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Return of the bull

If shares follow the usual pattern, we're due for a strong finish to the year, writes Shane Oliver

SINCE THEIR HIGHS AROUND April this year, shares have had a rough ride, particularly through the September quarter as the US Federal Reserve and worries about global growth rattled investor confidence.

A good place to start deciphering the sharemarkets is the seasonal patterns in share price movements. Typically the period from May to September is the weakest of the year. However, October is known as a "bear killer" month, as it often sees price falls bottom out ahead of seasonal strength going into the year's end and the new year.

Along with a more positive seasonal pattern in the months ahead, there are fundamental reasons for a resumption of the cyclical bull market in shares:

- Shares became cheaper as a result of their falls. This is particularly evident in the Australian sharemarket when you compare the grossed-up dividend yield, which is around 6.5%, with bank term deposits, which are averaging around 2.5%.
- Global monetary conditions remain very easy and, in some cases, are getting easier.
- This in turn should ensure that the global recovery continues, albeit at a sub-par and uneven pace.
- Investor sentiment is very negative, which is positive from a contrarian perspective.

But what to watch in the month or so ahead? We would nominate the following:

- Chinese economic data has disappointed this year. However, there are reasons to believe that risks regarding China may be receding: policy stimulus has stepped up; property prices are rising; recent data has been less negative; Chinese shares are now cheaper than Australian shares; and fears about a crash in the renminbi are receding. Key to watch, I think, will be the Chinese business conditions indicators (or PMIs) for signs that growth is on the mend.
- Perhaps the biggest risk associated with the collapse in emerging market currencies and commodity prices is the risk of an "accident" that might be thrown up. The fear of such, I think, largely explains investors' twitchiness and worries recently around Glencore. Fortunately, Glencore is not a Lehman Brothers – it's much smaller and less connected to credit flows.
- The start of a tightening cycle in US official interest rates is often associated with market volatility. Fortunately, the Fed has signalled it is aware of global risks and the impact of this on US inflation. In fact, with inflationary pressures still very weak, the first Fed rate hike looks as if it may be delayed into 2016.
- The US will once again hit its congressional debt ceiling in November and will face a government shutdown from December 11 unless Congress authorises ongoing spending. Both issues could cause more brinkmanship. However, the vast majority of congressional Republicans are more focused on winning next year's elections so a shutdown-debt ceiling crisis is likely to be avoided.
- The next big risk in Europe is Spain's general election, where the outcome is uncertain. However, most of the heavy lifting on economic reforms in Spain has already been done. So a euro-threatening outcome is unlikely.
- Australian growth is sub-par at 2% and could be for a while, requiring more help from Reserve Bank rate cuts – the RBA's November 3 meeting is worth watching – and a lower Australian dollar. Mining-exposed parts of the country are struggling but non-mining sectors such as housing, consumer spending, tourism, agriculture and higher education are benefiting from lower interest rates and the Australian dollar's fall. There are better opportunities in global shares but the S&P/ASX 200 should make it back to 5500 by year-end.

There is plenty to keep an eye on – as always. However, our broad assessment remains that the cyclical bull market in shares is likely to reassert itself in the seasonally strong months of the year's end.

Dr Shane Oliver is head of investment strategy and chief economist at AMP Capital.

Under fear's spell

When sentiment takes over from fact, clear thinkers will be the winners, writes Marcus Padley

IF STOCKMARKET PRICES WERE generated by an algorithm that combined fundamental factors alone, we could invest with some certainty. But things aren't that easy and, as has become apparent from the relatively rapid 17% drop in the market in the past few months, share prices are not a function of fact but a function of a rather ethereal commodity called sentiment. And, like it or not, the mortal investor cannot contain it in maths.

One of the interesting features of this sentiment factor is that, unlike a fundamental algorithm based on facts and assumptions, sentiment is the distillation of thousands of human reactions which are dictated by genetically unique information contained in the two twisted strands of DNA biomolecules inherited by each and every investor. Good luck trying to guess how that's going to turn out.

At times in the market, such as now, sentiment takes over from fact. Share prices stray even further from the confines of logic and predictability and the volatility creates confusion for the analyst and frustration for the ordered mind.

But what you can do to define the sentiment factor in the equation is to understand that it moves, much like a share price, in a trading range that stretches between irrational exuberance (thank you Greenspan) and blind fear. Recently we have been experiencing fear. It is hardly extreme but it is, as always, sabotaging our ability to think clearly and has the potential to lead us into blind panic. Our "Glencore moment" in the resources sector bordered on that. We know we should resist our natural human responses, we know emotion is kryptonite for an investor, but sometimes we just can't help acting on what those two strands of biomolecules are telling us.

Those of us who have been around a little bit longer start to learn – after a few market corrections, a number of rash decisions and some repetitive trading losses – to override our genetic conditioning. Rather than "fall in" with everybody else's stockmarket dread and anxiety, we begin to recognise when approaching tops and bottoms of the sentiment trading range and, rather than not thinking clearly, we try to exploit everybody else's inability to think clearly.

The last time we hit the bottom of the trading range on sentiment was probably the day after Lehman Brothers went bust (2008). The last time we hit a high was in 2007, when BHP Billiton bid for Rio Tinto and three stockbrokers chose that moment to list their shares for the first time.

If Lehman Bros was a zero and 2007 was 100, then I would put us at about 40 on the scale right now. We are a long way from blind panic but are beginning to see signs of what I would call "cascading fear", when the fear starts to breed more fear.

The Glencore collapse at the end of September was an example. The herd briefly went off a cliff and was, as usual, propelled by the media and research which – like the innocents at the back in a crowd stampede – are always pushing from behind while the herd is receptive.

Another recent example is a US article that was redistributed everywhere and received almost 1000 comments. It was entitled "US interest rate rise could trigger global debt crisis". It contained no new information and included a rather scary photograph that was out of context and four years old. But it achieved its purpose for the publication, which was to attract as many eyeballs as possible. The way to do that in finance in the internet age is to focus on something that is already trending, to take an extreme view and communicate that in a short headline designed to generate an immediate emotional, right-brained response.

Of course, none of this helps us predict what will happen next, no one can tell you if we are in for financial Armageddon or a value-based rebound. But what you can do to get it ordered in your mind is to view fear objectively, to gauge it, not fall for it, to use it and attempt to exploit it rather than fall under its spell.

The current emotional state of the market is something to be observed without getting involved. But for those of you who can't help but run with your biomolecules, for those of you who are already emotional, my objective observation of you is that you clearly have more money in the market than you are comfortable with and the solution to that is obvious enough.

Marcus Padley is a stockbroker and the author of the daily stockmarket newsletter Marcus Today. For a free trial of Marcus Today go to marcustoday.com.au

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STORY GREG HOFFMAN

Nice little earner

Australia's largest listed online auctioneer is a tempting medium-term prospect

AT THE START OF 2013 I bought some shares in a tiny company called Mnet, which was poised to enter into a flurry of transactions after selling off its previous businesses. Usually I'm wary of such corporate instability but in this case I believe that Mnet has emerged from this fractious period transformed, butterfly-like, into a rather attractive opportunity.

First Mnet changed its name to Mnemon (I'm still not sure how to pronounce that one properly) and its business to online retailing by acquiring Deals Direct and TopBuy.

Then last year Mnemon became Grays eCommerce (ASX: GEG) after merging with online auctioneer Grays, which itself had acquired a more traditional - if that's the right word - online retail business in 2013 called oo.com.au.

Another key piece of the puzzle was announced in October this year, when Grays eCommerce sold off its collection of fixed-price internet retail businesses, leaving it focused on the online auctions business.

Wine winner

If you're a wine drinker, you may already be familiar with the Grays brand. At grayswine.com.au you'll find wine for sale at both fixed prices and by auction (wine was the one fixed-price online retail business that wasn't sold in the October deal).

Grays sells 55,000 cases of wine direct to consumers each month and says it's the third-largest online retailer of wine in Australia, behind Woolies and Coles.

Exact profit figures aren't provided but we know some encouraging things about the wine segment of its business. For starters, revenue was $31 million for the past financial year and 80% of that, or around $25 million, was achieved through online auctions.

In those auctions, the successful bidder pays a 17.5% premium to Grays on top of the final auction price and my understanding is that the seller pays around 20% to Grays. There's also a freight component on which Grays clips the ticket as well.

Imagine a bidder who wins an auction for a case of wine with a bid of $100. They will

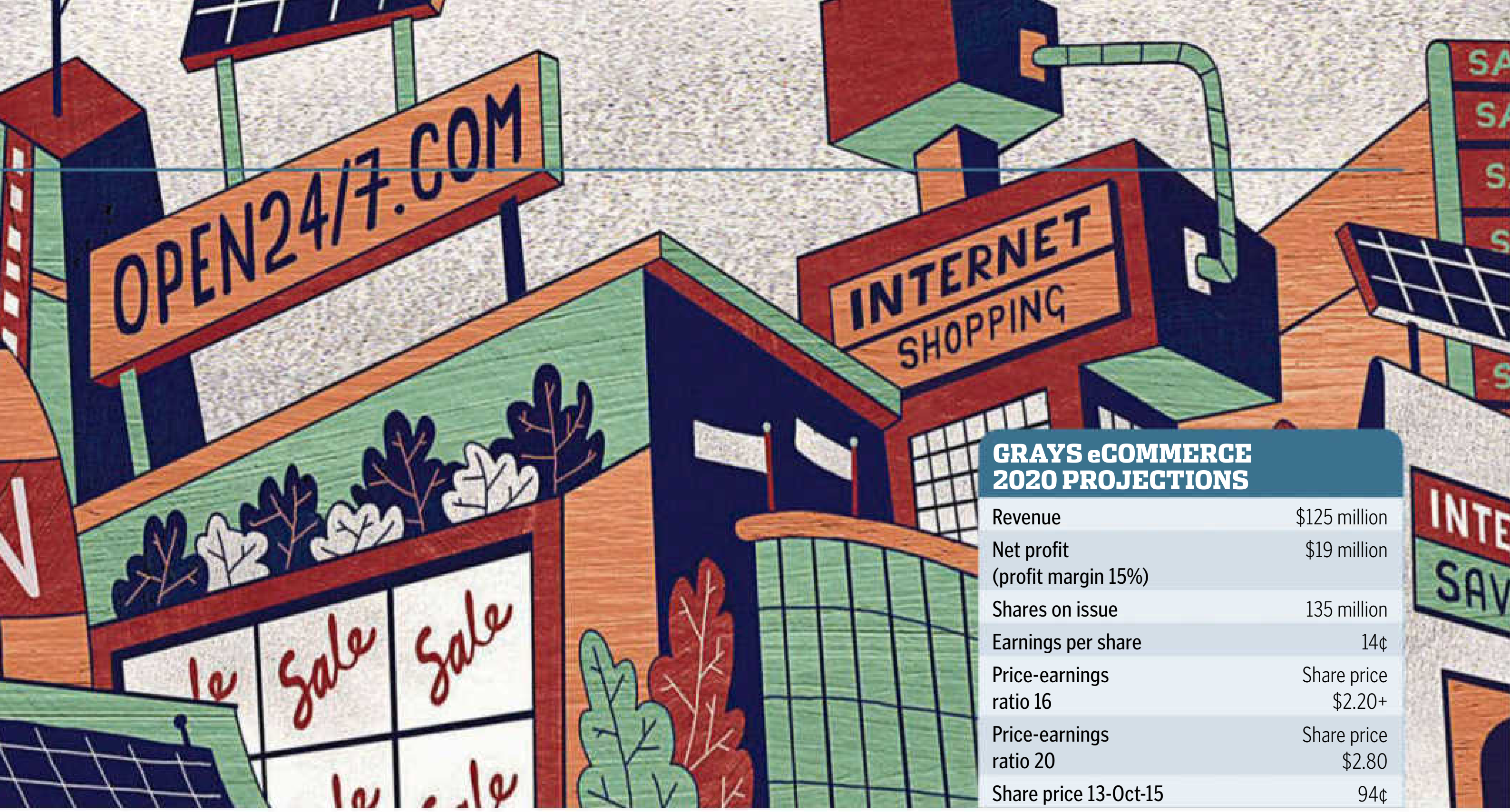
GRAYS eCOMMERCE

Share price, daily

SOURCE: ASX

pay an additional $17.50 "buyer's premium" to Grays and perhaps another $12 worth of delivery charges. Grays then charges the seller, say, $20 and also keeps perhaps $1 or $2 of the delivery charge for a total take of almost $40 on the nominal $100 winning bid (which ends up costing the buyer more like $130).

So on its $25 million in online wine auctions, I estimate Grays makes almost $10 million in gross profit. In the words of Ricky Gervais's David Brent, it's a Bunsen burner (a nice little earner).



GRAYS eCOMMERCE 2020 PROJECTIONS

Revenue	$125 million
Net profit (profit margin 15%)	$19 million
Shares on issue	135 million
Earnings per share	14¢
Price-earnings ratio 16	Share price $2.20+
Price-earnings ratio 20	Share price $2.80
Share price 13-Oct-15	94¢

Yet the most exciting part of the business to me is one that is not so well known to most of us. In recent years Grays has made strong inroads into industrial auctions. In fact, it is now the largest business-to-business online auction marketplace in the Asia-Pacific region for used plant and equipment.

To give a flavour of its capabilities, in 2010 and 2011 Grays and a business partner co-managed the closure and sale of Mitsubishi's factory in South Australia. With its online auction technology, lists of prospective buyers and sellers and a team of 50 or so expert valuers, Grays is well placed for this kind of work.

It's a growth area, too. The company estimates the Australian market for used industrial equipment was $11.6 billion in 2014 and $3.6 billion of that (31%) was sold by auction. And of that $3.6 billion in auctions, 20% was conducted online, up from 16% in 2010.

Like so many migrations to the digital world, the move towards online auctions makes perfect sense and looks set to continue for the next few years at least.

Mining bust a boost

Grays has also been one of the few Australian businesses to benefit from the mining downturn. As tonnes and tonnes of equipment has been left idle by operators and contractors, Grays has been happy to help them sell it. Then there's the sadder work of items being sold by liquidators after companies have gone bust.

In June it acquired DMS Davlan, an auctioneer of agricultural machinery that operates 15 branches throughout Australia. Grays will be able to apply many of the lessons and skills it has developed within its industrial business to the agricultural machinery area. In fact, at least some of DMS Davlan's auctions have already been shifted to the Grays website, which is a far more cost-effective venue than a physical auction.

I expect management to make more of these small bolt-on acquisitions, pushing Grays into new product categories (as it did with DMS Davlan) and new geographic areas, as with the acquisition in February of Bryan Andrews Auctioneers, which operates on New Zealand's South Island.

Office supplies group Corporate Express successfully pursued a similar two-pronged approach to its growth through acquisitions in the 1990s and early 2000s before being acquired itself by US giant Staples in 2010. Corporate Express provided a profitable ride for its investors and I expect Grays to enrich shareholders too.

The company is well positioned financially to pursue this strategy, too. It has no debt and more than $10 million worth of cash on its balance sheet following the recent sale of its fixed-price retail businesses.

The opportunity

As an investor, I think there's a decent chance that the share price will be north of $2 in five years. That would mean today's investor would double their money over that period for an annual compounded return of around 15%. Here's how that could happen.

The industrial and wine businesses generated a combined $87 million in revenue by my estimates in the 2015 financial year. With some natural growth, the small acquisitions made to date and presumably a few more to come, it's not a stretch to imagine revenue at $125 million in 2020.

At that stage, a net profit margin of 15% should be achievable. In fact, the figure might well be higher but let's stick with that assumption (Grays might choose to lower its buyer's premium or pay its sellers more over time).

A 15% net profit margin on $125 million of revenue would equate to almost $19 million in net profit. By that stage, the company might have, perhaps, 135 million shares on issue. Dividing the net profit by the number of shares on issue, we arrive at a potential figure for earnings per share in 2020 of almost 14¢.

All going to plan, the sharemarket might award a quality business like this a price-earnings ratio of 16 or even 20. The lower of those figures would equate to a share price of more than $2.20 – a clean double for today's investor who pays less than $1.10 per share. And at a PE ratio of 20, the share price would be closer to the $3 mark.

Of course not everything always goes according to the brochure but I'm confident enough in the Grays business and its game plan to have been buying its shares quite aggressively throughout October.

If things pan out as I've outlined, then I'll be a very happy shareholder in a few years. At that point I might even buy a nice case of wine to celebrate. Online, of course.

Greg Hoffman is an independent financial educator, commentator and investor. He is also chairman of Forager Funds Management.

Disclosure: Portfolios managed by Greg Hoffman own shares in Grays eCommerce.

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STORY VANESSA GILBERT

Picks of the bunch

Stock selection requires a check of past performance and a look to the future

WHEN YOU BUY shares in top-quality companies with solid balance sheets, good cash flows and business models that are not susceptible to market fluctuations, it doesn't really matter if the market drops $55 billion in a day. That's because investors who own shares in top-notch companies don't panic. If you've done your research and you're confident the shares in your portfolio are likely to be worth significantly more in two, five or 10 years, then what happens in the market is incidental.

Because there are so few top-quality stocks listed on the ASX, once you buy into a good one something pretty drastic needs to happen for you to consider selling. And that's why the share prices of our very best stocks are only temporarily affected by market meltdowns.

The proof is really in the pudding. Twelve months ago we identified 11 future growth stocks set to flourish in 2015. Eight of them sit on share price plus dividend gains ranging from 3% to more than 465%. Standout performers include Bellamy's (up 467%), Capilano Honey (up 234%), Magellan Financial Group (up 48%), Sirtex Medical (up 47%) and a Top 5 stock for 2015, Nick Scali (up 23%). Negative performers are Infomedia (down 26%), Breville Group (down 15%, also a Top 5 stock for 2015) and Capitol Health (down 6%).

What is the secret to finding future growth stars? Firstly, don't just focus on the future. If a company doesn't have a strong track record, how can you be confident it can deliver growth in the future? Sure you'll miss out on some opportunities. But you can also rest easy knowing your money isn't in speculative stocks that "could be on the brink of something big". Stick with companies that have proved their ability to generate returns.

Track record

Companies with strong balance sheets and histories of delivering profits are less likely to require debt or to ask shareholders to tip in more money through capital raisings. There are three ratios that will tell you if the company is in a good economic position, or not: net debt to equity, funding surplus and return on equity.

The net debt-to-equity ratio captures the size of a company's debt compared with its total shareholder equity, allowing for any cash in the bank. It tells you how heavily a company is geared. To buy a house you typically need a 20% deposit, which means you're gearing level is 80%. That's pretty high but at least you have a fixed asset you can sell if things turn bad. Business is a bit different. Selling assets can significantly disrupt a company's operations. That's why at Skaffold we focus on businesses geared at less than 40%. Less debt is best.

Companies that have a cash flow funding surplus spend less money than they earn. Consider your own personal balance sheet. If you consistently spend more money every month than you put into your bank account, sooner or later you'll run out of savings. The greater a company's cash flow surplus, the more likely it is to avoid excessive borrowing, expand its business, pay dividends and withstand economic downturns.

Return on equity (ROE) tells you how profitable the company is. At the end of the day, if a company isn't producing a return on equity of at least 10%, then you should question why you own its shares. Given the risk of owning a business – and that it's listed on the sharemarket, which is susceptible to economic glitches – a return of less than 10% isn't really worth the potential risks.

Will it be profitable?

By applying those conditions to the 1800 ASX-listed companies, you will reduce your options to the mere 136 that are solid businesses. Let's just repeat that: of the 1800-odd stocks listed on the ASX, only 136 have a track record of maintaining solid balance sheets, good cash flows and strong profitability – that's 8% of the market. It's pretty slim pickings and highlights why it's so important to do thorough research before buying shares.

Before we pick out future growth stars, we need to run two more checks: exclude stocks that aren't expected to make a profit this year and only look at those that analysts cover. The possibles are reduced to a list of 80 stocks. When a stock has analyst coverage, earnings and profit forecasts are available. Skaffold crunches these estimates through its proprietary algorithms to determine growth and dividend forecasts and to estimate what a business is worth. When you know what a

FREE TRIAL Check out Skaffold's simple and intuitive visual interpretations of the 25 stocks set to deliver strong growth in 2016 (and every other company listed on the ASX) at Skaffold.com/money. You'll quickly see why they stand head and shoulders above their competitors. All valuations and data are provided by Skaffold Pty Ltd. Vanessa Gilbert is one of Skaffold's founders. Data is accurate as at October 9, 2015 close of trade.

business is worth, you know what a reasonable price for a share is and can avoid overpaying.

Then the fun really begins: discovering those gold nuggets that will help your portfolio flourish for years to come.

The only way you're going to achieve good returns is to stick with companies that are forecast to continue delivering strong profitability along with rising earnings. Skaffold's earnings-growth ratio looks at a company's latest reported earnings per share and its expected change over the next 12 months. That's a great way to find companies that have been growing for at least 12 months and are forecast to keep growing.

A company's economics – its earnings, dividends, equity, debt, profitability and cash flow – are crunched through 730 of Skaffold's algorithms to produce an estimate of what a business is actually worth. Knowing the intrinsic value of a business, both today and looking into the future, allows Skaffold to calculate future growth rates, focusing on companies forecast to deliver at least 10%pa.

A final word of caution: to preserve your sanity, avoid mining and mining-related stocks. There are so many moving variables that it makes it very tricky to forecast future growth with any form of confidence.

Future growth stars

Applying our strict criteria, just 25 of the 1800-odd companies remain. Scary, isn't it, to think that only 1.4% of ASX-listed companies are worth your consideration?

The Skaffold sorting process finds the most growth stocks are in the services and technology sectors. Food processing, healthcare, financial and car and truck parts also present a handful of attractive opportunities.

TOP 10 STOCKS BY FUTURE VALUE GROWTH

STOCK	HISTORICAL PERFORMANCE			FORECASTS			SHARE PRICE AND VALUATION		
	SKAFFOLD SCORE	DEBT RATIO	ROE	ROE	EARNINGS GROWTH	VALUE GROWTH (%PA)	PRICE	INTRINSIC VALUE	SAFETY MARGIN[1]
Bellamy's Australia (BAL)	A1	-66%	30%	33%	104%	52%	$7.18	$3.60	-50%
Blue Sky Alternative Investments (BLA)	A2	-4%	23%	24%	16%	42%	$5.31	$2.98	-44%
Integrated Research (IRI)	A1	-42%	43%	42%	9%	35%	$2.64	$1.19	-55%
Netcomm Wireless (NTC)	B2	-1%	11%	27%	216%	33%	$1.49	$0.77	-48%
Technology One (TNE)	A2	-49%	32%	32%	12%	29%	$3.84	$1.81	-41%
Pacific Smiles (PSQ)	A1	-37%	34%	28%	15%	23%	$2.07	$0.97	-53%
Servcorp (SRV)	A3	-44%	15%	16%	20%	22%	$6.73	$4.70	-30%
Burson (BAP)	B2	-40%	15%	13%	23%	21%	$3.64	$2.31	-37%
Sealink Travel Group (SLK)	A2	13%	16%	17%	34%	19%	$3.24	$1.72	-47%
Capilano Honey (CZZ)	A1	14%	25%	27%	21%	17%	$22.19	$12.55	-44%

Source: Skaffold as at 9-Oct-15. [1]A safety margin of -50% means Bellamy's intinsic value was 50% below its price.

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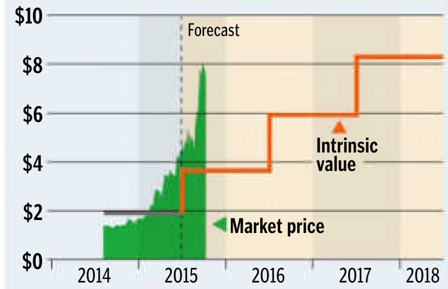
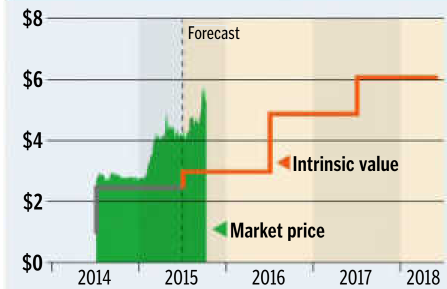
BELLAMY'S AUSTRALIA



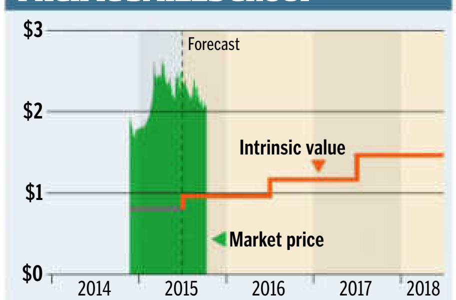
BLUE SKY ALTERNATIVE INVT



INTEGRATED RESEARCH

TECHNOLOGY ONE

PACIFIC SMILES GROUP



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Insights into the market's mind

Simple maths suggests that value looks reasonable over the long term, writes Roger Montgomery

THE ONE-YEAR FORWARD PE (price-earnings) ratio for the S&P/ASX 200 Index has been on a rollercoaster recently. I'd like to try to put a framework around the market movements to more broadly understand the thinking around the volatility.

At the start of 2010, the ratio of what the market was willing to pay for its earnings base was about 15 times, which fell to 12 in 2011-12 over concerns about Europe. But as that passed, the PE ratio quickly rose and market participants were sufficiently comfortable to push it as high as 16-17.

If we go back a bit further, we find that, since 1970, the market has traded, on average, within a PE ratio range of 14-15 times. Today it is just shy of 15.

So what should investors make of it? Simply this: the sharemarket, as represented by the S&P/ASX 200 Index, basically represents the "price" of the market as a whole. In a perfect world, it should also represent the present value of future after-tax earnings. All it takes is some pretty simple maths to put a framework around this pricing and earnings. From the information already provided, we should be able to solve the expected earnings of the index.

As a first step, we take the current S&P/ASX 200 Index price of circa 5000 points and divide it by the PE ratio of 14.95 times. This gives us the earnings of the entire market, or about 334.45, upon which we can apply the discounted cash flow (DCF) formula.

S&P/ASX 200 price-earnings ratio

SOURCE: BLOOMBERG

Why a DCF? The value of a share of a company is simply the sum of future after-tax cash flows. If this applies on a company level, then the value of any index is also simply the sum of the future cash flows of each of the constituent companies discounted back to today.

Using this earnings number and the DCF formula, we can estimate the assumptions for future growth that the market is implying at its current level for a given level of marginal return on equity (ROE).

The average ROE over the past 10 years has been 13.6%. We have also used a cost of equity (COE) of 10%, given this is the historical average. From this base, we then work out the growth rate (g) implied by the market which can be estimated as: 5000 = 334.45*(1-g/13.6%)/(10%–g).

Since 1970, real economic growth has averaged about 3%-3.5% a year. Over the long term, we would also expect earnings for the businesses that make up the S&P/ASX 200 Index to approximate sustainable real economic growth plus inflation, provided failed and delisted companies are taken into account. Sustainable real economic growth rates are determined by a combination of population growth and productivity improvements. Assuming population growth of 1.2%, productivity improvement of 1% a year and inflation of 2.5%, sustainable earnings growth should be around 4.7%.

If we factor a 4.7% growth rate into our formula, we obtain an index valuation of 4130. At 6.5% we obtain an index valuation of 4990. This is in line with the current S&P/ASX 200 Index valuation of 5000. Therefore, on a current PE ratio of 14.95 times, and adopting a 10% COE, the market is implying a long-term growth rate in earnings for the entire market of about 6.5%. This appears high relative to the sustainable rate of long-term growth. So the market is either factoring in a lower COE or a higher sustainable marginal ROE than has been the case historically.

At various PE ratio levels (assuming a COE of 10%) and a known quantum of earnings, we also can back-solve other implied growth rates. Based on current earnings, at a PE ratio of 12 (where we went to in 2011-12), the market would be implying longer-term earnings growth of 4.25%. This is below Australia's long-term trend and, while a period of subdued growth is typical in any market cycle, history shows that by taking a long-term view even the worst economic cycles prove temporary.

One take-away is that you should be careful with your equity exposure when the market begins implying growth in excess of the long-run average. For it is then that bubble-like pricing may exist. That does not appear to be the current picture; the market right now is on a longer-term growth rate towards the middle of its historical range.

But keep in mind that any attempt to value the market is not a prediction of its near-term direction or an assumption that the implied growth in aggregate earnings is achievable – invariably nothing goes up in a straight line.

Roger Montgomery is a portfolio manager at Montgomery Investment Management. For his book, Value.Able*, see www.rogermontgomery.com.*

DATABANK

Your guide to the super data

Australians have two main investments – their home and their superannuation. Super may not be as riveting a topic but it's just as important for your financial security.

SuperRatings is a totally independent Australian superannuation research company. It is the leading source of superannuation information to the Australian media and is renowned for its timely commentary and opinions on the various superannuation funds available. Calculators, fund comparisons, fund ratings, news and expert opinion can be found at www.superratings.com.au.

The data in these tables compares some of the most popular super funds. They are a mix of industry funds, master trusts and government funds. Industry funds are set up by employer associations and unions; many are offered publicly, some have restricted membership (**NP**). Master trusts (corporate and personal) are set up by banking, insurance or financial planning groups. All performance figures are after all fees, charges and tax applied to the fund have been deducted.

The table here shows performance of funds' balanced options. But most super funds offer many other choices of investment mix.

Returns are as at August 31, 2015.

NP means membership of the fund is restricted.

Pr means performance results are preliminary.

What they mean

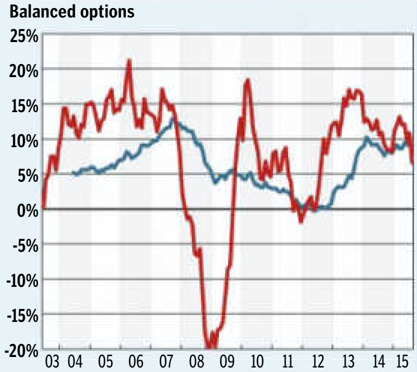
Rank All tables have been ranked by five-year returns. Returns are net of maximum fees. High balances may qualify for lower fees and thus better returns. Rankings for one- and seven-year returns show the performance of the particular fund compared with peers.

SuperRatings rating SuperRatings assesses over 250 superannuation funds and products. The best super fund manager award is given to the fund that provides the best value for money to members in Australia. SuperRatings takes into account risk-adjusted investment performance, fees, insurance, service delivery, education, financial planning facilities, employer support, fund governance and flexibility of the options. The judging is mainly quantitative but does include qualitative assessment.

Platinum are best value for money funds; **Gold** are good value for money; **Silver**, reasonable value; **Bronze** are below average in performance and features; and **Blue** are bottom of the ladder.

ROLLING MEDIAN RETURNS

Balanced options



ROLLING 1 YEAR — ROLLING 5 YEAR

Graph shows rolling returns for SuperRatings' SR50 Balanced Index median since June 2003

BEST SUPER FUNDS: BALANCED OPTIONS

FUND NAME	SEGMENT	5-YR RTN %pa	RANK[1]	1-YEAR RETURN	RANK	7-YR RTN %pa	RANK	2015 RATING
Telstra Super Corp Plus Balanced	Corporate	10.0%	1	6.8%	20	6.9%	2	Plat'm
CareSuper Balanced	Industry	9.9%	2	8.5%	3	6.8%	3	Plat'm
HOSTPLUS Balanced	Industry	9.7%	3	7.1%	17	6.0%	16	Plat'm
UniSuper Accum (1) Balanced	Industry NP	9.7%	4	7.8%	6	6.8%	4	Plat'm
AustralianSuper Balanced	Industry	9.7%	5	7.4%	16	6.3%	8	Plat'm
REST Core Strategy	Industry	9.6%	6	6.6%	25	7.2%	1	Plat'm
Cbus Growth (Cbus MySuper)	Industry	9.6%	7	6.9%	19	6.1%	15	Plat'm
Kinetic Super Growth	Industry	9.5%	8	5.5%	34	-		Gold
Equip Corp Balanced Growth	Industry	9.5%	9	6.6%	26	6.7%	5	Plat'm
HESTA Core Pool	Industry	9.3%	10	6.8%	21	6.1%	13	Plat'm
BUSSQ Premium Choice Balanced Growth	Industry Pers'l	9.3%	11	8.2%	5	5.9%	18	Plat'm
AustSafe Super MySuper (Balanced)	Industry	9.3%	12	7.7%	9	6.3%	7	Gold
Intrust Core Super Balanced	Industry	9.2%	13	8.3%	4	5.8%	19	Plat'm
Plum Pre-mixed Moderate	MT-Corporate	9.2%	14	7.5%	14	6.1%	12	Plat'm
First State Super Diversified	Industry	9.1%	15	6.7%	22	6.2%	9	Plat'm
Aon MT Corp Ess Balanced Growth Active	MT-Corporate	9.1%	16	7.4%	15	5.7%	24	Plat'm
Catholic Super Balanced	Industry	9.0%	17	7.5%	12	6.2%	10	Plat'm
GESB Super Balanced Growth Plan	Government	9.0%	18	6.3%	29	6.2%	11	Plat'm
CSC PSSap MySuper Balanced	Government	9.0%	19	9.7%	1	5.6%	26	Plat'm
Vision SS Balanced Growth	Industry	9.0%	20	6.2%	30	5.3%	29	Plat'm
SR50 Bal'd (60%-76% growth) Index Median		8.6%		6.6%		5.7%		

[1]Rankings are made on returns to multiple decimal points.

SUPERRATINGS INDICES MEDIAN RETURNS

Index	1-year return	3-year returns	5-year returns	7-year returns
SR25 High Growth (91-100%) Index	7.5%	14.0%	9.8%	5.6%
SR50 Growth (77-90%) Index	6.8%	12.4%	9.2%	5.9%
SR25 Conservative Balanced (41-59%) Index	5.4%	8.6%	7.0%	5.5%
SR50 Capital Stable (20-40%) Index	4.6%	6.3%	6.2%	5.2%
SR25 Secure (0-19%) Index	2.4%	3.2%	3.6%	3.7%
SR25 Property Index	8.9%	9.3%	9.7%	3.6%

Percentages in brackets indicate proportion of growth assets.

Your guide to the managed funds data

Professionally managed investment funds can be the way to go if you don't have the time or expertise to manage your own investments. For a fee, the professionals do the work for you.
Morningstar (www.morningstar.com.au), a leading global provider of investment research, supplies our managed funds data. There were more than 6000 funds on offer when Morningstar launched its star rating system to help investors to initially identify quality funds. The ratings are not for predicting future performance. Funds less than three years old are not rated and funds smaller than $10 million and with a minimum investment of more than $25,000 have been filtered out. Morningstar relies on the fund managers to supply data monthly; if updates have not been provided, a fund may be omitted.

Here you'll find information on several asset classes – Australian equities, international equities and multisector funds (sometimes called balanced funds). For multisector funds we show the asset allocation for selected funds. Returns are as at September 30, 2015, and other data is correct as at September 30, 2015. For any enquiries about the funds tables, you can contact Morningstar on 1800 034 455 or help.au@morningstar.com.

APIR Identification number of the fund. They are voluntary and not all fund managers elect to have APIR codes assigned to their funds.
MER/ICR The management expense ratio is the annual management fee paid to the fund manager. The investment cost ratio is a new calculation of this fee, recommended by ASIC and IFSA, and includes an additional performance fee based on the one levied the year before. Fees are a percentage of your investment.
Returns The returns published are net (after) the annual management fee but do not take into account any transaction (entry/exit) fees an investor may have to pay. The returns are before tax.
Entry fees Entry fees are levied on most managed funds. The amount varies between fund managers and depends on the fund's asset class. International funds generally attract the highest entry fees – up to 6% of the amount invested. You can avoid most entry fees by going through a discount broker. If you are using the services of a financial adviser, try to negotiate a discount. If you go directly to a fund manager you'll usually be charged the full entry fee. Nil-entry-fee options are often available but higher management expense ratios usually apply.
Star rating Morningstar calculates and publishes star ratings for over 7000 funds monthly using the latest fund performance data. For a Morningstar star rating, a fund must be at least three years old.
★★★★★ very good performer ★★★★ good performer ★★★ average performer ★★ poor performer ★ very poor performer
NAp Not applicable **NAv** Not available

TOP 5 RETAIL AUSTRALIAN SHARE FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Fidelity Australian Equities	FID0008AU	0.85%	✗	$25,000	**$4235m**	1.87%	8.75%	★★★★★
Perpetual Wholesale Industrial	PER0046AU	0.99%	✓	$25,000	**$2114m**	3.07%	11.36%	★★★★
Schroder WS Australian Equity	SCH0101AU	0.92%	✗	$25,000	**$2078m**	-7.10%	6.12%	★★★
Ausbil Australian Active Equity	AAP0103AU	0.90%	✗	$20,000	**$1872m**	-1.24%	6.74%	★★★★
Perpetual Wholesale Australian	PER0049AU	0.99%	✓	$25,000	**$1420m**	-2.39%	8.38%	★★★★

TOP 5 STOCKHOLDINGS

AUSTRALIAN SHARE FUND: Fidelity Australian Equities	HOLDING
Commonwealth Bank of Australia	11.54%
Westpac Banking Corp	6.02%
ANZ Banking Group	5.55%
Suncorp Group	5.24%
Telstra Corp	4.54%

TOP 5 RETAIL INTERNATIONAL SHARE FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Platinum International	PLA0002AU	1.54%	✓	$20,000	**$11,047m**	13.17%	11.35%	★★★
Magellan Global	MGE0001AU	1.35%	✓	$20,000	**$7583m**	27.48%	21.21%	★★★★★
Walter Scott Global Equity	MAQ0410AU	NAv	✗	$20,000	**$1987m**	20.12%	14.46%	★★★★
Grant Samuel Epoch Glbl Eq Shldr Yld Uhg	GSF0002AU	1.25%	✗	$25,000	**$1818m**	16.38%	15.64%	★★★★
IFP Global Franchise	MAQ0404AU	1.38%	✗	$20,000	**$1768m**	25.57%	19.64%	★★★★★

TOP 5 STOCKHOLDINGS

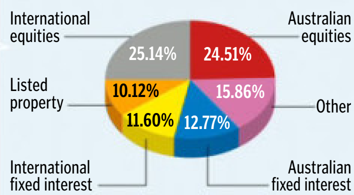
INTERNATIONAL SHARE FUND: Platinum International	HOLDING
Short Positions	14.36%
Carnival Corp	2.82%
AstraZeneca PLC	2.39%
Samsung Electronics Co Ltd	2.26%
PICC Property and Casualty Co H Sh	2.20%

TOP 5 RETAIL MULTI-SECTOR FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Advance Balanced Multi-Blend Ws	ADV0050AU	NAv	✓	$5000	**$3160m**	4.93%	7.30%	★★★
Advance Growth Multi-Blend Ws	ADV0085AU	NAv	✓	$5000	**$2606m**	5.19%	7.67%	★★★
IOOF MultiMix Balanced Growth Trust	IOF0093AU	1.05%	✗	$25,000	**$2127m**	8.94%	9.04%	★★★★
North Index Balanced	NMM0113AU	NAv	✗	$100	**$1990m**	6.00%	8.99%	★★★★
Advance Moderate Multi-Blend Ws	ADV0091AU	0.83%	✓	$5000	**$1869m**	3.92%	6.38%	★★★

ASSET ALLOCATION

Advance Balanced Multi-Blend Wholesale



TOP 5 RETAIL AUSTRALIAN SHARE FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
Perpetual Wholesale Ethical SRI	PER0116AU	1.18%	3-May-02	5.55%	**13.54%**	$864m	★★★★★
Perpetual Ws Share Plus L/S	PER0072AU	1.50%	14-Mar-03	3.73%	**13.30%**	$727m	★★★★★
Perpetual WFIA-Perpetual Ethical SRI	PER0491AU	2.28%	10-Nov-08	4.42%	**12.30%**	$26m	★★★★★
Perpetual WFIA-Perpetual Share Plus L/S	PER0495AU	2.19%	10-Nov-08	2.70%	**12.17%**	$13m	★★★★★
Antares Prof Dividend Builder	PPL0002AU	0.60%	6-Sep-05	4.80%	**11.81%**	$182m	★★★★

TOP 5 STOCKHOLDINGS

AUSTRALIAN SHARE FUND: Perpetual Wholesale Ethical SRI	HOLDING
National Australia Bank	7.99%
Westpac Banking Corp	7.58%
Freedom Nutritional Products	6.58%
Commonwealth Bank of Australia	5.05%
Qube Holdings	4.06%

TOP 5 RETAIL INTERNATIONAL SHARE FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
CFS FC W Inv-PM Capital Ws Global Cos	FSF0798AU	1.21%	24-Feb-06	26.78%	**21.88%**	$15m	★★★★★
CFS FC Inv-PM Capital Global Cos	FSF0813AU	1.82%	6-Mar-06	28.14%	**21.53%**	$10m	★★★★★
Magellan Global	MGE0001AU	1.35%	29-Jun-07	27.48%	**21.21%**	$7583m	★★★★★
Acadian Wholesale Global Eqty Long Short	FSF0788AU	1.29%	20-Jan-06	32.73%	**20.50%**	$12m	★★★★★
IFP Global Franchise	MAQ0404AU	1.38%	17-Nov-04	25.57%	**19.64%**	$1768m	★★★★★

TOP 5 STOCKHOLDINGS

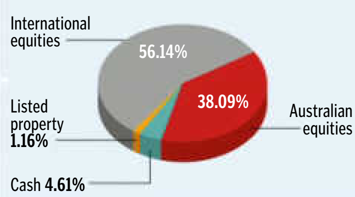
INTERNATIONAL SHARE FUND: Magellan Global	HOLDING
eBay Inc	7.58%
Microsoft Corp	7.05%
Yum Brands Inc	5.49%
Lowe's Companies Inc	5.30%
Visa Inc Class A	4.77%

TOP 5 RETAIL MULTI-SECTOR FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
BT Class Inv Split Growth	BTA0012AU	1.55%	12-Mar-84	11.67%	**12.65%**	$219m	★★★★
Perpetual Ws Split Growth	PER0066AU	1.16%	17-Mar-99	11.42%	**12.53%**	$27m	★★★★★
Perpetual WFIA-Perpetual Split Growth	PER0496AU	2.13%	10-Nov-08	10.37%	**11.41%**	$13m	★★★★★
Fiducian Ultra Growth	FPS0014AU	NAv	1-Dec-08	12.30%	**11.24%**	$86m	★★★★★
North Multi Manager Active High Growth	IPA0070AU	NAv	29-Oct-07	5.83%	**10.81%**	$85m	★★★★★

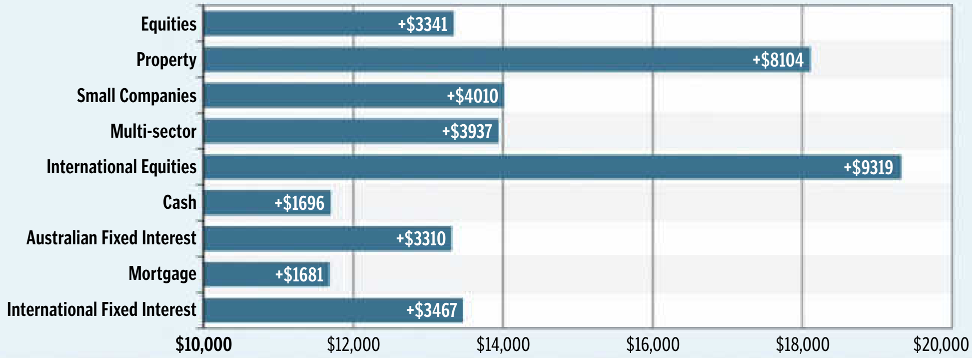
ASSET ALLOCATION

Perpetual Wholesale Split Growth



VALUE OF $10,000 BY ASSET CLASS

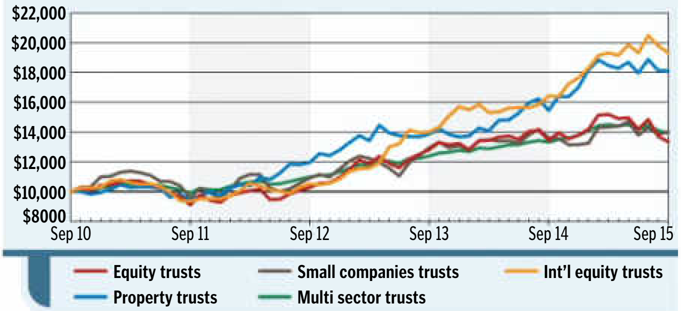
$10,000 invested in September 2010 to September 2015



The bar chart shows the five-year growth of $10,000 invested in different asset classes at the end of September 2010 until the end of September 2015. The property funds sector is showing the positive impact of managers becoming more conservative after the GFC and reducing debt. The strength of the international equity sector is partly because of the fall in the Australian dollar. $10,000 invested in the average-performing international share fund would have grown to $19,319 over the five-year period.

GROWTH OF $10,000 IN GROWTH ASSET CLASSES

$10,000 invested in September 2010 to September 2015



GROWTH OF $10,000 IN INCOME CLASSES

$10,000 invested in September 2010 to September 2015

Your guide to the real estate investment trust (REIT) data

SQM Research is one of Australia's most respected property research companies which specialises in providing accurate property related information, ratings and forecasts covering residential property and real estate related managed funds.

Funds data Supplied by SQM Research. Performance data as at August 31, 2015.

SQM ratings SQM has been an official rater of managed investment schemes since 2007 and, while perhaps better known for its residential property research, SQM's ratings sector is a core and integral part of its business. Here is what they mean: **4.5+** stars, **outstanding;** 4 stars to 4.25 stars, **superior; 3.75** stars, **good; 3.5 stars**, average; **3.25 stars, caution required; 3** stars, **strong caution required; below 3** stars, avoid or **redeem. NR** means the fund is not **rated.**

DOMESTIC PROPERTY SECURITIES FUNDS BY 5YR RETURNS

FUND	APIR	MER/ ICR	START DATE	SIZE	1-YR RTN	3-YR RTN (%PA)	5-YR RTN (%PA)	SQM RATING
Legg Mason Property Securities Trust	SSB0128AU	0.74%	Jan 1995	$179m	14.30%	17.80%	**16.60%**	NR
EQT SGH Wholesale Property Income Fund	ETL0119AU	0.95%	Nov 2005	$402m	9.30%	16.20%	**15.70%**	4.50
APN A-REIT Fund	APN0008AU	0.85%	Jan 2009	$930m	12.60%	16.40%	**14.30%**	4.25
Folkestone Maxim A-REIT Securities Fund	COL0001AU	0.95%	Oct 2005	$12m	13.10%	16.60%	**14.20%**	4.00
BT Wholesale Property Securities Fund	BTA0061AU	0.65%	Nov 1997	$328m	13.80%	15.90%	**13.40%**	4.50

TOP 5 STOCK HOLDINGS

APN A-REIT Fund	PORTFOLIO
Scentre Group	24.4%
Federation Centres	11.3%
Stockland	8.9%
Charter Hall Retail REIT	7.0%
Westfield Group	5.2%

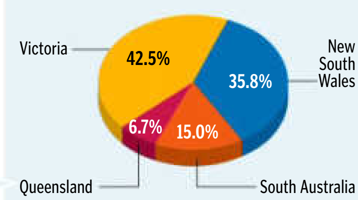
DIRECT PROPERTY AND HYBRID PROPERTY SECURITIES FUNDS BY 5YR RTNS

FUND	APIR	MER/ ICR	START DATE	SIZE	1-YR RTN	3-YR RTN (%PA)	5-YR RTN (%PA)	SQM RATING
Australian Unity Healthcare Property Trust (Wholesale)	AUS0112AU	1.08%	Feb 2002	$383m	12.90%	10.70%	**9.20%**	4.5
Charter Hall Direct 144 Stirling Street Trust	MAQ0788AU	0.80%	May 2012	$56m	-1.68%	9.74%	**6.09%**	NR
Charter Hall Direct Industrial Fund No.2[1]	MAQ0815AU	0.80%	Dec 2012	$246m	16.20%	NAv	**NAv**	NR
Cromwell Ipswich City Heart Trust[1]	CRM0015AU	0.60%	Dec 2011	$102m	11.10%	9.30%	**NAv**	NR

[1]Valued quarterly

GEOGRAPHICAL ALLOCATION

Aust Unity Healthcare Property Trust (Wholesale)



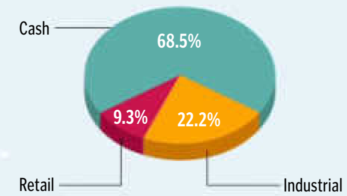
At Jul 31, 2015 SOURCE: SQM RESEARCH

MORTGAGE TRUSTS BY 5YR RETURNS

FUND	APIR	MER/ ICR	START DATE	SIZE	1-YR RTN	3-YR RTN (%PA)	5-YR RTN (%PA)	SQM RATING
Trilogy Monthly Income Trust	TGY0003AU	0.94%	Feb 2007	$26m	8.3%	8.2%	**8.5%**	3.75
La Trobe Australian Mortgage - Pooled Mortgages Option	LTC0002AU	1.50%	Oct 2002	$492m	5.9%	6.3%	**7.0%**	4.25
AIMS Commercial Mortgage Fund	MCK0005AU	0.90%	Jan 2004	$84m	3.2%	3.8%	**4.6%**	3.75
AMP Capital Wholesale Australian Monthly Income Fund	NML0316AU	0.70%	Jul 2000	$18m	3.7%	3.9%	**1.5%**	NR
Firstmac High Livez	PER0561AU	0.60%	Mar 2011	$49m	4.3%	7.0%	**NAp**	4.00

SECTOR ALLOCATION

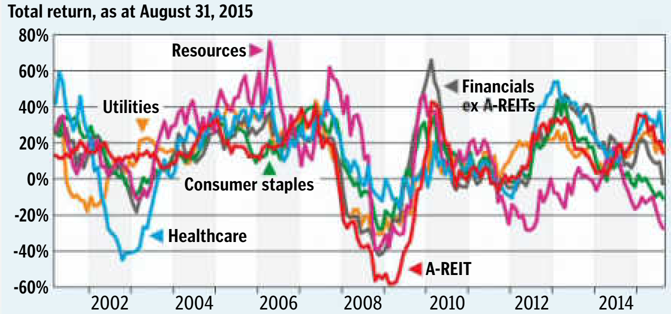
AMP Capital Wholesale Aust Monthly Income Fund



At Jul 31, 2015 SOURCE: SQM RESEARCH

S&P/ASX 300 SECTOR INDICES

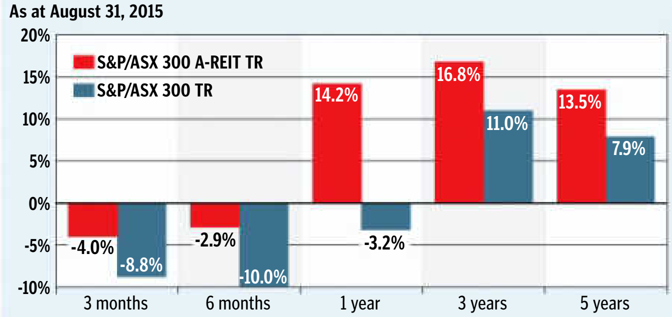
Total return, as at August 31, 2015



SOURCE: BLOOMBERG, SQM RESEARCH

TOTAL RETURNS

As at August 31, 2015



SOURCE: BLOOMBERG, SQM RESEARCH

Your guide to the real estate data

This month the data supplied is for the cheapest home loans available. It is important to be aware that the cheapest loan is not always the best loan for you. Low-rate home loans generally offer fewer features and less flexibility than premium loans. And be sure to work out the features you need before you shop because features such as offset or redraw can save you thousands on interest.

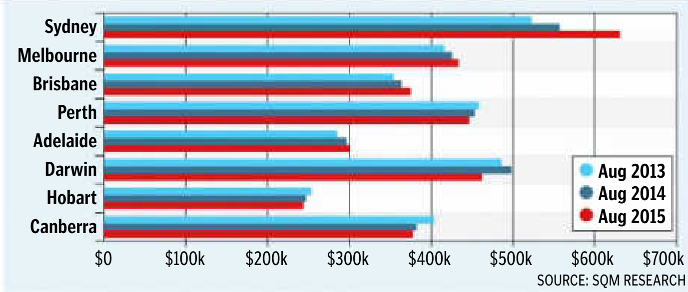
Home loan data Supplied by Canstar, correct as at October 2, 2015.

AAPR The annualised average percentage rate: Interest rates and fees are incorporated for easy comparisons among loans. The AAPRs are for a $250,000 loan over 25 years.

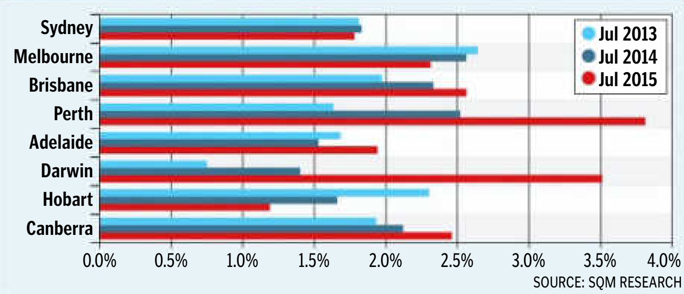
House and unit price chart The quarterly capital city median house and unit prices are compared with the median prices in the same quarter a year earlier and two years earlier. Similarly the capital city residential vacancy rates and stock levels are compared over three years. Supplied by SQM Research. Information is correct as at August, 2015.

MEDIAN HOUSE PRICES

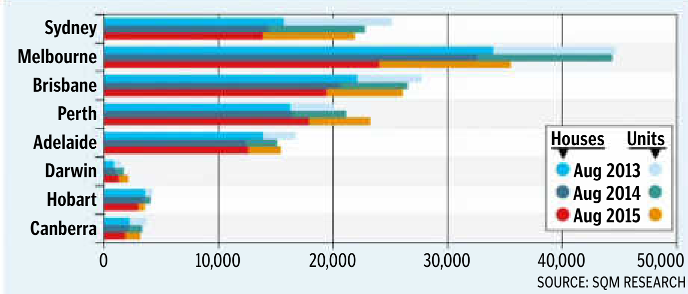
MEDIAN UNIT PRICES



VACANCY RATES



TOTAL STOCK ON MARKET FOR SALE HOUSES & UNITS



SQM's house index is based entirely on freestanding houses and terraces; other indices normally include townhouses as part of houses and are lower. SQM puts townhouses, villas, duplexes into units, hence the unit median index is higher than others. SQM also incorporates asking prices in its index for an update less weighted to lagging Valuer General data.

LOW-RATE HOME LOANS

Institution	Product	Rate	AAPR	3 payment options[1]	IO available[2]	Lump sum repayments	Redraw	Upfront costs
Reduce Home Loans	Rate Buster Offset Fee Free	3.88%	3.86%	✗	✗	✓	✓	$1150
Mortgage HOUSE	Pure and Simple ULTRA	3.89%	3.89%	✓	✗	✓	✓	none
Reduce Home Loans	Rate Buster Offset Fee Free	3.94%	3.93%	✗	✓	✓	✓	$1150
AMO Group	Basic Variable	3.89%	3.96%	✓	✗	✓	✓	$1470
Homestar Finance	Owner Occupied Property	3.94%	3.97%	✓	✗	✓	✓	$632.50
Homestar Finance	Basic Refinance	3.94%	3.97%	✓	✗	✓	✓	$632.50
Mortgage View	Special Offset to 70%	3.97%	3.98%	✗	✗	✓	✓	none
Mortgage HOUSE	Pure and Simple	3.99%	3.99%	✓	✗	✓	✓	none
UBank	UHomeLoan Spring Offer	3.99%	3.99%	✓	✗	✓	✓	none
loans.com.au	Essentials PI	3.98%	4.00%	✓	✗	✓	✓	$520

Ranked by AAPR (3 dec pl), then alphabetically. No loan listed has a penalty for exceeding repayment limits or an ongoing fee.

[1]Weekly, fortnightly and monthly. [2]Interest-only payments.

FIVE-YEAR FIXED HOME LOANS

Institution	Rate	Max lump sum repayment
Freedom Lend	4.24%	$10,000
Pacific Mortgage Group	4.29%	no max
Homestar Finance	4.45%	$10,000
AMO Group	4.49%	$20,000
Greater Building Society	4.49%	no max
Newcastle Permanent	4.49%	$25,000
Qantas Credit Union	4.49%	$10,000
CUA	4.55%	3%
QT Mutual Bank	4.55%	$10,000
Teachers Mutual Bank	4.57%	NAv
UBank	4.57%	$20,000
UniBank	4.57%	NAv

Ranked by rate, then alphabetically. Penalty can apply for exceeding repayment limit. Fees vary.

READER OFFER

20% OFF 2016 BUYER'S GUIDE

How to pick the right shares

WHAT'S THE trick to picking the right stocks? Many investors would maintain that share trading is essentially a gamble – the probability of a company rocketing or tanking overnight is anyone's guess. But there are a few tricks of the trade that can help you to feel more confident about the choices you make.

Martin Roth's latest share buyer's guide, *Top Stocks 2016*, can help you make the best decisions. Now in its 22nd edition, Roth's guide contains up-to-date data and analysis on the best low-risk, long-term value stocks – and it can be yours this month with an exclusive discount of 20% plus free shipping for *Money* readers.

When you're considering your share-market options, the first thing you should do is look to the global economy. What's the current situation? The current turmoil in China has had enormous effects on our resources sector, which has fallen by 20.97% in the past 12 months. Even typical blue-chip stocks such as Woolworths have copped a beating this year, with the hallmark conglomerate down 21.92% in the past 12 months. It underlines how important it is to know exactly what's going on in the world, sector by sector. Risk is a key part of share trading – you can't make money without it. But it's important to understand what risks you're taking when you're banking on the success of company. It's in your best interest to stay well informed.

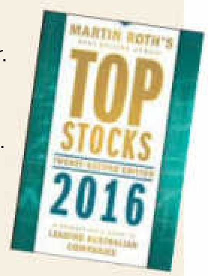
Good research is imperative for a good investment decision. Roth's *Top Stocks 2016* provides information on the profitability, debt levels and dividend history of some of Australia's most promising stocks.

How does your stock compare with the competition? It's important to know who and what you're up against when you're share trading, so be sure to extend you research to other companies in the sector. In Roth's book, you'll get expert opinions on each recommended company, as well as comparative sales and profit data to help inform your decision. To spell it out for you, each company is ranked according to its financial data, so newbies will know exactly where to start.

Including over 100 tables, Roth's *Top Stocks 2016* carves out the fat and leaves you with a concise selection of premium companies across market sectors. If you want to start the new year with a good investment, this publication can point you in the right direction.

As well as the 20% discount for *Money* readers, the shipping is free.

How to get this offer



To obtain a copy, go to educatedinvestor.com.au and click on the Top Stocks 2016 banner at the top of the website. This will take to you to the Top Stocks 2016 page. Click **"Add to cart"**. Go to **"coupon code"** and enter Money. Click **"go"** and this will reduce the price of the book by 20%.

Shipping is free for deliveries within Australia. Freight for overseas orders can be quoted.

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